McGraw-Hill Education, Inc.

Quarterly Report

As of December 31, 2020

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF MCGRAW-HILL EDUCATION, INC. AND SUBSIDIARIES

Special Note Regarding Forward-Looking Statements

This report includes statements that are, or may be deemed to be, “forward-looking statements.” These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “intends,” “plans,” “may,” “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the developments in the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the developments in the industry in which we operate are consistent with the forward-looking statements contained in this report, those results of operations, financial condition and liquidity or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements we make in this report speak only as of the date of such statement, and we undertake no obligation to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

Part I - FINANCIAL INFORMATION

Item 1: FINANCIAL STATEMENTS

McGraw-Hill Education, Inc. and subsidiaries
Consolidated Statements of Operations
(Unaudited; dollars in thousands)

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
Revenue	$ 362,502	$ 364,844
Cost of sales	68,979	77,280
Gross profit	293,523	287,564
Operating expenses		
Operating and administration expenses	198,166	255,007
Depreciation	15,711	15,582
Amortization of intangibles	14,341	17,327
Total operating expenses	228,218	287,916
Operating (loss) income	65,305	(352)
Interest expense (income), net	43,898	42,832
Other (income) expense	—	(7,962)
(Loss) income from operations before taxes on income	21,407	(35,222)
Income tax provision	3,513	4,974
Net (loss) income	**$ 17,894**	**$ (40,196)**

See accompanying notes to the unaudited consolidated financial statements.

Part I - FINANCIAL INFORMATION

Item 1: FINANCIAL STATEMENTS

McGraw-Hill Education, Inc. and subsidiaries
Consolidated Statements of Operations
(Unaudited; dollars in thousands)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Revenue	$ 1,222,841	$ 1,292,435
Cost of sales	268,840	307,466
Gross profit	954,001	984,969
Operating expenses		
Operating and administration expenses	607,793	778,280
Depreciation	43,879	43,798
Amortization of intangibles	45,903	53,220
Total operating expenses	697,575	875,298
Operating (loss) income	256,426	109,671
Interest expense (income), net	129,969	135,147
Other (income) expense	—	(7,962)
(Loss) income from operations before taxes on income	126,457	(17,514)
Income tax provision	8,354	10,767
Net (loss) income	**$ 118,103**	**$ (28,281)**

See accompanying notes to the unaudited consolidated financial statements.

McGraw-Hill Education, Inc. and subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited; dollars in thousands)

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
Net (loss) income	$ 17,894	$ (40,196)
Other comprehensive (loss) income:		
Foreign currency translation adjustment, net of tax	6,203	1,018
Unrealized (loss) gain on interest rate swap agreements, net of tax	691	1,967
Comprehensive (loss) income	**$ 24,788**	**$ (37,211)**

See accompanying notes to the unaudited consolidated financial statements.

McGraw-Hill Education, Inc. and subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited; dollars in thousands)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Net (loss) income	$ 118,103	$ (28,281)
Other comprehensive (loss) income:		
Foreign currency translation adjustment, net of tax	15,724	(3,145)
Unrealized (loss) gain on interest rate swap agreements, net of tax	2,073	(7,704)
Comprehensive (loss) income	**$ 135,900**	**$ (39,130)**

See accompanying notes to the unaudited consolidated financial statements.

McGraw-Hill Education, Inc. and subsidiaries
Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 2020 (Unaudited)	March 31, 2020
Current assets		
Cash and cash equivalents	$ 487,907	$ 176,998
Restricted cash	—	9,936
Accounts receivable, net of allowance for doubtful accounts of $16,915 and $17,606 as of December 31, 2020 and March 31, 2020, respectively	285,088	242,347
Inventories, net	155,388	177,043
Prepaid and other current assets	115,138	92,940
Total current assets	1,043,521	699,264
Pre-publication costs, net	150,507	156,336
Property, plant and equipment, net	129,026	134,064
Goodwill	496,999	491,211
Other intangible assets, net	453,588	495,780
Investments	6,288	5,403
Deferred income taxes	8,460	7,561
Operating lease right-of-use assets	61,257	69,315
Other non-current assets	181,144	174,056
Total assets	**$ 2,530,790**	**$ 2,232,990**
Liabilities and equity (deficit)		
Current liabilities		
Accounts payable	$ 95,111	$ 113,975
Accrued royalties	96,068	45,865
Accrued compensation	62,088	20,470
Deferred revenue	567,496	497,297
Current portion of long-term debt	17,269	17,269
Operating lease liabilities	10,751	13,424
Other current liabilities, including sales returns of $56,354 and $58,084 as of December 31, 2020 and March 31, 2020, respectively	151,919	155,703
Total current liabilities	1,000,702	864,003
Long-term debt	2,153,499	2,141,354
Deferred income taxes	14,400	13,186
Long-term deferred revenue	649,836	643,643
Operating lease liabilities	83,855	89,830
Other non-current liabilities	57,522	49,330
Total liabilities	3,959,814	3,801,346
Commitments and contingencies (Note 12)		
Stockholders' equity (deficit)		
Common stock, par value $0.01 per share; 100,000,000 shares authorized, 11,153,675, and 11,149,466 shares issued as of December 31, 2020 and March 31, 2020, respectively; and 10,864,813 and 10,861,636 shares outstanding as of December 31, 2020 and March 31, 2020, respectively	106	106
Additional paid in capital	56,756	53,324
Treasury stock, 289,307 and 287,830 shares as of December 31,2020 and March 31, 2020, respectively	(23,529)	(23,529)
Accumulated deficit	(1,415,957)	(1,534,060)
Accumulated other comprehensive loss	(46,400)	(64,197)
Total stockholders' equity (deficit)	(1,429,024)	(1,568,356)
Total liabilities and equity (deficit)	**$ 2,530,790**	**$ 2,232,990**

See accompanying notes to the unaudited consolidated financial statements.

McGraw-Hill Education, Inc. and subsidiaries
Consolidated Statements of Cash Flows
(Unaudited; dollars in thousands)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Operating activities		
Net (loss) income	$ 118,103	$ (28,281)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation (including amortization of technology projects)	43,879	43,798
Amortization of intangibles	45,903	53,220
Amortization of pre-publication costs	60,992	77,579
Gain on disposition	—	(2,129)
Provision for losses on accounts receivable	2,817	5,141
Inventory obsolescence	19,648	21,174
Deferred income taxes	1,214	(1,148)
Stock-based compensation	3,995	11,036
Interest paid-in-kind	10,575	—
Amortization of debt discount	8,465	7,735
Amortization of deferred financing costs	9,399	8,894
Amortization of deferred royalties	19,549	19,201
Amortization of deferred commission costs	6,582	8,069
Restructuring charges	11,520	22,717
Other	(854)	91
Changes in operating assets and liabilities,		
Accounts receivable	(41,026)	(73,727)
Inventories	3,361	19,389
Prepaid and other current assets	(46,254)	(24,592)
Accounts payable and accrued expenses	71,220	93,224
Deferred revenue	74,595	128,183
Other current liabilities	(7,539)	14,234
Net change in operating assets and liabilities	(6,019)	(9,713)
Cash provided by (used for) operating activities	410,125	394,095
Investing activities		
Investment in pre-publication costs	(52,675)	(58,369)
Capital expenditures	(25,557)	(63,582)
Proceeds from disposition	—	2,582
Cash provided by (used for) investing activities	(78,232)	(119,369)
Financing activities		
Borrowings on Receivables Facility	50,000	44,600
Payment of Term Loan Facility	(12,951)	(26,952)
Payment of Receivables Facility	(50,000)	(65,900)
Payment of capital lease obligations	(9,047)	(10,538)
Payment of deferred financing costs	(3,134)	—
Repurchase of common stock	—	(2,331)
Dividend equivalent on vested stock options	—	(940)
Cash provided by (used for) financing activities	(25,132)	(62,061)
Effect of exchange rate changes on cash	(5,788)	(1,232)
Net change in cash, cash equivalents and restricted cash	300,973	211,433
Cash, cash equivalents and restricted cash at the beginning of the period	186,934	190,423
Cash, cash equivalents and restricted cash, ending balance	$ 487,907	$ 401,856
Supplemental disclosures		
Cash paid for interest expense	$ 114,478	$ 134,482
Cash paid for income taxes	8,301	6,400

See accompanying notes to the unaudited consolidated financial statements.

1. Basis of Presentation and Accounting Policies

McGraw-Hill Education Inc. (“MHE”, the “Company”, “Parent”, “we”, “us”, or “our”), is a global provider of outcome-focused learning solutions, delivering both curated content and digital learning tools and platforms to the students in the classrooms of approximately 250,000 higher education instructors, 13,000 K-12 school districts and a wide variety of academic institutions, professionals and companies in more than 100 countries. We have evolved our business from a print-centric producer of textbooks and instructional materials to a developer of digital content and technology-enabled adaptive learning solutions that are delivered anywhere, anytime. Our business is comprised of the following four operating segments:

- ***Higher Education:*** In the higher education market in the United States, we provide students, instructors and institutions with adaptive digital learning tools, digital platforms, custom publishing solutions and traditional printed textbook products. The primary users of our solutions are students enrolled in two-and four-year non-profit colleges and universities, and to a lesser extent, for profit institutions. We sell our Higher Education solutions to well-known online retailers, distribution partners and college bookstores, who subsequently sell to students. We also increasingly sell via our proprietary e-commerce platform, primarily directly to students, and through our formal rental program which was introduced in the fall of 2018 with rental agreements with all major distribution partners.

- ***K-12:*** In the K-12 market in the United States, we sell our learning solutions directly to K-12 school districts across the United States. While we offer all of our major curriculum and learning solutions in digital format, given the varying degrees of availability and maturity of our customers’ technological infrastructure, a majority of our sales are derived from selling blended print and digital solutions.

- ***International:*** We leverage our global scale, brand recognition and extensive product portfolio to serve students in the higher education, K-12 and global professional markets in more than 100 countries outside of the United States. Our products and solutions for the International segment are produced in more than 75 languages and primarily originate from our offerings produced for the United States market and that are later adapted to different international markets.

- ***Global Professional:*** We are a leading global provider of medical, technical and business content for the global professional, education and test preparation communities serving more than 2,000 institutional clients.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and all significant intercompany transactions and balances have been eliminated. In the opinion of management, the accompanying consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation.

These consolidated financial statements and notes reflect the Company’s evaluation of events occurring subsequent to the balance sheet date through February 23, 2021, the date the financial statements were available for issuance.

Seasonality and Comparability

Our revenues, operating profit and operating cash flows are affected by the inherent seasonality of the academic calendar, which varies by country. Changes in our customers’ ordering patterns may impact the comparison of our results in a quarter with the same quarter of the previous year, or in a fiscal year with the prior fiscal year, where our customers may shift the timing of material orders for any number of reasons, including, but not limited to, changes in academic semester start dates or changes to their inventory management practices.

(Unaudited; dollars in thousands, unless otherwise indicated)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts and sales returns, inventories, pre-publication costs, accounting for the impairment of long-lived assets (including other intangible assets), valuation of right of use assets, goodwill and indefinite-lived intangible assets, restructuring, stock-based compensation, income taxes and contingencies.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include bank deposits and highly liquid investments with original maturities of three months or less that consist primarily of interest bearing demand deposits with daily liquidity, money market and time deposits. The balance also includes cash that is held by the Company outside the United States to fund international operations or to be reinvested outside of the United States. The investments and bank deposits are stated at cost, which approximates market value. These investments are not subject to significant market risk.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the consolidated balance sheets to the total of the same amounts reported in the consolidated statements of cash flows:

	As of	
	December 31, 2020	**March 31, 2020**
Cash and cash equivalents	$ 487,907	$ 176,998
Restricted cash	—	9,936
Total Cash, Cash Equivalents and Restricted Cash	**$ 487,907**	**$ 186,934**

Accounts Receivable

Credit is extended to customers based upon an evaluation of the customer’s financial condition. Accounts receivable are recorded at net realizable value.

Allowance for Doubtful Accounts and Sales Returns

The allowance for doubtful accounts and sales returns reserves methodology is based on historical analysis, a review of outstanding balances and current conditions. In determining these reserves, we consider, among other factors, the financial condition and risk profile of our customers, areas of specific or concentrated risk as well as applicable industry trends or market indicators. The allowance for sales returns is a significant estimate, which is based on historical rates of return and current market conditions. The provision for sales returns is reflected as a reduction to “Revenues” in our consolidated statements of operations. Sales returns are charged against the reserve as products are returned to inventory. Accounts receivable losses for bad debt are charged against the allowance for doubtful accounts when the receivable is determined to be uncollectible. The change in the allowance for doubtful accounts is reflected as part of operating and administrative expenses in our consolidated statement of operations.

Concentration of Credit Risk

As of December 31, 2020 and March 31, 2020, two customers comprised 20% and 23% of the gross accounts receivable balance which is reflective of concentration and seasonality in our industry. In addition, the Company mitigates concentration of credit risk with respect to accounts receivable by performing ongoing credit evaluations of its customers and by periodically entering into arrangements with third parties who have agreed to provide credit insurance or purchase our accounts receivables of certain customers in the event of the customer's financial inability to pay, subject to certain limitations.

For the three and nine months ended December 31, 2020 and 2019, the Company had no single customer that accounted for 10% of gross revenue. The loss of, or any reduction in sales from, a significant customer or deterioration in their ability to pay could harm our business and financial results.

Inventories

Inventories, consisting principally of books, are stated at the lower of cost or net realizable value. The majority of our inventories relate to finished goods. A significant estimate, the reserve for inventory obsolescence, is reflected in operating and administration expenses. In determining this reserve, we consider management's current assessment of the marketplace, industry trends and projected product demand as compared to the number of units currently on hand.

Pre-publication Costs

Pre-publication costs include both the cost of developing educational content and the development of assessment solution products. Costs incurred prior to the publication date of a title or release date of a product represent activities associated with product development. These may be performed internally or outsourced to subject matter specialists and include, but are not limited to, editorial review and fact verification, graphic art design and layout and the process of conversion from print to digital media or within various formats of digital media. These costs are capitalized when the costs can be directly attributable to a project or title and the title is expected to generate probable future economic benefits. Capitalized costs are amortized upon publication of the title over its estimated useful life of up to five years, with a higher proportion of the amortization typically taken in the earlier years. Amortization expenses for prepublication costs are charged as a component of operating and administration expenses. In evaluating recoverability, we consider management's current assessment of the marketplace, industry trends and the projected success of programs.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation and amortization are recorded on a straight-line basis, over the assets' estimated useful lives. Buildings have an estimated useful life, for purposes of depreciation, from ten to forty years. Furniture, fixtures and equipment are depreciated over periods not exceeding twelve years. Leasehold improvements are amortized over the life of the lease or the life of the assets, whichever is shorter. The Company evaluates the depreciation periods of property, plant and equipment to determine whether events or circumstances warrant revised estimates of useful lives.

Consigned Inventory

Consigned inventory consists mainly of books available through our formal rental program stated at the lower of cost or net realizable value. At the time a rental transaction is completed, the book is moved from inventories, net to property, plant and equipment, net. The cost of the book is amortized down to its estimated residual value over the rental period with the related amortization expense included within cost of sales in the consolidated statements of operations. Returns are moved back into inventories, net at the current residual value.

Royalty Advances

Royalty advances are initially capitalized and subsequently expensed as related revenues are earned or when the Company determines future recovery is not probable. The Company has a long history of providing authors with royalty advances, and it tracks each advance earned with respect to the sale of the related publication. Historically, the longer the unearned portion of the advance remains outstanding, the less likely it is that the Company will recover the advance through the sale of the publication, as the related royalties earned are applied first against the remaining unearned portion of the advance. The Company applies this historical experience to its existing outstanding royalty advances to estimate the likelihood of recovery. Additionally, the Company's editorial staff reviews its portfolio of royalty advances at a minimum quarterly to determine if individual royalty advances are not recoverable for discrete reasons, such as the death of an author prior to completion of a title or titles, a Company decision to not publish a title, poor market demand or other relevant factors that could impact recoverability. Based on this information, the portion of any advance that we believe is not recoverable is expensed. The net amount of royalty advances were $4,484 and $4,908 as of December 31, 2020 and March 31, 2020, respectively and is included within other non-current assets in the consolidated balance sheets.

Deferred Technology Costs

We capitalize certain software development and website implementation costs. Capitalized costs only include incremental, direct costs of materials and services incurred to develop the software after the preliminary project stage is completed, funding has been committed and it is probable that the project will be completed and used to perform the function intended. Incremental costs are expenditures that are out-of-pocket to us and are not part of an allocation or existing expense base. Software development and website implementation costs are expensed as incurred during the preliminary project stage. Capitalized costs are amortized from the period the software is ready for its intended use over its estimated useful life, generally three years, using the straight-line method and are included within depreciation in the consolidated statements of operations. Periodically, we evaluate the amortization methods, remaining lives and recoverability of such costs. Capitalized software development and website implementation costs are included in other non-current assets in the consolidated balance sheets and are presented net of accumulated amortization. Gross deferred technology costs were $232,406 and $207,739 as of December 31, 2020 and March 31, 2020, respectively. Accumulated amortization of deferred technology costs were $152,924 and $127,739 as of December 31, 2020 and March 31, 2020, respectively. Amortization of deferred technology costs for the three and nine months ended December 31, 2020 was $9,124 and $24,666. Amortization of deferred technology costs for the three and nine months ended December 31, 2019, was $9,323 and $25,280, respectively.

Accounting for the Impairment of Long-Lived Assets (Including Other Intangible Assets)

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to current forecasts of undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets held for sale are written down to fair value, less cost to sell. Fair value is determined based on market evidence, discounted cash flows, appraised values or management's estimates, depending upon the nature of the assets.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of purchase price and related costs over the fair value of identifiable assets acquired and liabilities assumed in a business combination. Indefinite-lived intangible assets consist of the Company's acquired brands. Goodwill and indefinite-lived intangible assets are not amortized, but instead are tested for impairment annually during the third quarter each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We have four reporting units, Higher Education, K-12, International, and Global Professional with goodwill and indefinite-lived intangible assets that are evaluated for impairment.

We initially perform a qualitative analysis evaluating whether there are events or circumstances that provide evidence that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount. If, based on our evaluation we do not believe that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount, no quantitative impairment test is performed. Conversely, if the results of our qualitative assessment determine that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their respective carrying amounts we perform a two-step quantitative impairment test.

During the first step, the estimated fair value of the reporting units are compared to their carrying value including goodwill and the estimated fair value of the intangible assets is compared to their carrying value. Fair values of the reporting units are estimated using the income approach, which incorporates the use of a discounted free cash flow analysis, and are corroborated using the market approach, which incorporates the use of revenue and earnings multiples based on market data. The discounted free cash flow analyses are based on the current operating budgets and estimated long-term growth projections for each reporting unit. Future cash flows are discounted based on a market comparable weighted average cost of capital rate for each reporting unit, adjusted for market and other risks where appropriate. Fair values of indefinite-lived intangible assets are estimated using avoided royalty discounted free cash flow analyses. Significant judgments inherent in these analyses include the selection of appropriate royalty and discount rates and estimating the amount and timing of expected future cash flows. The discount rates used in the discounted free cash flow analyses reflect the risks inherent in the expected future cash flows generated by the respective intangible assets. The royalty rates used in the discounted free cash flow analyses are based upon an estimate of the royalty rates that a market participant would pay to license the Company's trade names and trademarks.

If the fair value of the reporting units or indefinite-lived intangible assets are less than their carrying value, a second step is performed which compares the implied fair value of the reporting unit’s goodwill or indefinite-lived intangible assets to the carrying value. The fair value of the goodwill or indefinite-lived intangible assets is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities of the reporting unit or carrying value of the indefinite-lived intangible asset. If the implied fair value of the goodwill or indefinite-lived intangible assets is less than the carrying value, the difference is recognized as an impairment charge. Significant judgments inherent in this analysis include estimating the amount and timing of future cash flows and the selection of appropriate discount rates, royalty rate and long-term growth rate assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit and indefinite-lived intangible asset and for some of the reporting units and indefinite-lived intangible assets could result in an impairment charge, which could be material to our financial position and results of operations.

Fair Value Measurements

In accordance with authoritative guidance for fair value measurements, certain assets and liabilities are required to be recorded at fair value on a recurring basis. Fair value is defined as the amount that would be received to sell an asset or transfer a liability in an orderly transaction between market participants. A fair value hierarchy has been established which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs used to measure fair value are as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial Instruments

We enter into interest rate hedge agreements to manage risks associated with interest rate exposures and are not used for trading or speculative purposes. Interest rate swap agreements are derivative financial instruments and generally involve the conversion of variable-rate debt to fixed-rate debt over the life of the interest rate swap agreement without exchange of the underlying notional amount.

Interest rate swap agreements which are designated and qualify as a hedge of the exposure to variability in expected future cash flows are considered cash flow hedges. The Company prepares written hedge documentation for all interest rate swap agreements which are designated as cash flow hedges. The written hedge documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item and methodologies for assessing and measuring hedge effectiveness and ineffectiveness, along with support for management's assertion that the hedge will be highly effective.

For designated hedging relationships, the Company performs retrospective and prospective effectiveness testing to determine whether the hedging relationship has been highly effective in offsetting changes in cash flows of hedged items and whether the relationship is expected to continue to be highly effective in the future. Assessments of hedge effectiveness and measurements of hedge ineffectiveness are performed at least quarterly. The effective portion of the changes in the fair value of an interest rate swap that is highly effective and that has been designated and qualifies as a cash flow hedge are initially recorded in accumulated other comprehensive income (loss) and reclassified to earnings in the same period that the hedged item impacts earnings or when the hedging relationship is terminated. The ineffective portion of the gain or loss, if any, is recognized in earnings.

The Company recognizes all interest rate swap agreements as assets or liabilities in the balance sheet at fair value and is included with other non-current assets or other non-current liabilities, respectively. Cash flows from interest rate swap agreements used to manage interest rate risk are classified as operating activities. In addition, we enter into interest rate swap agreements with a variety of financial institutions that we believe are creditworthy in order to reduce our concentration of credit risk.

Foreign Currency Translation

We have operations in many foreign countries. For most international operations, the local currency is the functional currency. For international operations that are determined to be extensions of the U.S. operations or where a majority of revenue and/or expenses is USD denominated, the United States dollar is the functional currency. For local currency operations, assets and liabilities are translated into United States dollars using end-of-period exchange rates, and revenue and expenses are translated into United States dollars using weighted-average exchange rates. Foreign currency translation adjustments are accumulated in a separate component of equity.

Stock-Based Compensation

The Company issues stock options and other stock-based compensation to eligible employees, directors and consultants and accounts for these transactions under the provisions of Accounting Standards Codification ("ASC") 718, *Compensation - Stock Compensation*. For equity awards, total compensation cost is based on the grant date fair value. For liability awards, total compensation cost is based on the fair value of the award on the date the award is granted and is remeasured at each reporting date until settlement. For performance-based options issued, the value of the instrument is measured at the grant date as the fair value of the common stock and expensed over the vesting term when the performance targets are considered probable of being achieved. The Company recognizes stock-based compensation expense for all awards, on a straight-line basis, over the service period required to earn the award, which is typically the vesting period.

Revenue Recognition

Revenue is recognized when control of goods or services are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, we satisfy a performance obligation.

Arrangements with multiple deliverables

Revenue relating to products that provide for more than one deliverable is recognized based upon the relative fair value to the customer of each deliverable as each deliverable is provided. Revenue relating to agreements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. If the fair value to the customer for each service is not determinable based on stand-alone selling price, we make our best estimate of the services' stand-alone selling price and recognize revenue as earned as the services are delivered. Because we determine the basis for allocating consideration to each deliverable primarily on prices experienced from completed sales, the portion of consideration allocated to each deliverable in a multiple deliverable arrangement may increase or decrease depending on the most recent selling price of a comparable product or service sold on a stand-alone basis. For example, as the demand for, and prevalence of, digital products increases, as new sales occur we may be required to increase the amount of consideration allocable to digital products included in multiple deliverable arrangements because the fair value of such products or services may increase relative to other products or services bundled in the arrangement. Conversely, in the event that demand for our print products decreases, thereby causing us to experience reduced prices on our print products, we may be required to allocate less consideration to our print products in our arrangements that include multiple deliverables.

Subscription-based products

Subscription revenue is recognized over the related subscription period that the subscription is available and is used by the customer. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period. Included among the underlying assumptions related to our estimates that impact the recognition of subscription income is the extent of our responsibility to provide access to our subscription-based products, and the extent of complementary support services customers demand to access our products.

Service arrangements

Revenue relating to arrangements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. Such arrangements may include digital products bundled with traditional print products, obligations to provide products and services in the future at no additional cost, and periodic training pertinent to products and services previously provided. If the fair value to the customer for each service is not objectively determinable, we make our best estimate of the services' stand-alone selling price and recognize revenue as earned as the services are delivered.

Rental program

Revenue relating to our rental program is deferred and subsequently recognized over the rental period. The rental period begins when the print product is transferred to the customer and is typically for a one semester. All rental periods are less than one year in duration.

Shipping and Handling Costs

All amounts billed to customers in a sales transaction for shipping and handling are classified as revenue. Shipping and handling costs are also a component of cost of sales. We recognized shipping and handling revenue of $1,533 and $14,992 for the three and nine months ended December 31, 2020, respectively, and $971 and $15,996 for the three and nine months ended December 31, 2019, respectively.

Income Taxes

The Company's operations are subject to United States federal, state and local income taxes, and foreign income taxes.

We determine the provision for income taxes using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities.

Valuation allowances are established when management determines that it is more-likely-than not that some portion or all of the deferred tax asset will not be realized. Management evaluates the weight of both positive and negative evidence in determining whether a deferred tax asset will be realized. Management will look to a history of losses, future reversal of existing taxable temporary differences, taxable income in carryback years, feasibility of tax planning strategies, and estimated future taxable income. The valuation allowance can also be affected by changes in tax laws and changes to statutory tax rates.

We prepare and file tax returns based on management's interpretation of tax laws and regulations. As with all businesses, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax assessments based on differences in interpretation of the tax law and regulations. We adjust our estimated uncertain tax positions reserves based on current audits and recent settlements with various taxing authorities as well as changes in tax laws, regulations, and interpretations. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax (benefit) provision within the consolidated statement of operations.

Contingencies

We accrue for loss contingencies when both (a) information available prior to issuance of the financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and (b) the amount of loss can reasonably be estimated. When we accrue for loss contingencies and the reasonable estimate of the loss is within a range, we record its best estimate within the range. We disclose an estimated possible loss or a range of loss when it is at least reasonably possible that a loss may have been incurred. Neither an accrual nor disclosure is required for losses that are deemed remote.

Recently Adopted Accounting Standards

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and other - Internal-Use Software (Topic 350-40)*: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This standard requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Topic 350-40 to determine which implementation costs to capitalize as assets. This standard is effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021, with early adoption permitted. The early adoption of this ASU on the Company's financial statements was not material.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, the Amendments in this update reduce the complexity in accounting for income taxes by removing certain exceptions to accounting for income taxes and deferred taxes and simplifying the accounting treatment of franchise taxes, a step up in the tax basis of goodwill as part of business combinations, the allocation of current and deferred tax to a legal entity not subject to tax in its own financial statements, reflecting changes in tax laws or rates in the annual effective rate in interim periods that include the enactment date and minor codification improvements. This ASU is effective for fiscal years and interim periods beginning after December 15, 2020, with early adoption permitted. The early adoption of this ASU on the Company's financial statements was not material.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*," which modifies the disclosure requirements on fair value measurements. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

(Unaudited; dollars in thousands, unless otherwise indicated)

In August 2017, the FASB issued ASU 2017-12, "*Derivative and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*", which aligns hedge accounting with risk management activities and changes both how companies assess hedge effectiveness and presentation and disclosure requirements. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The CARES Act is an approximately $2 trillion emergency economic stimulus package in response to the Coronavirus outbreak, which among other things, contains several payroll and income tax provisions which will favorably impact the Company including deferral of payment of of employer Social Security taxes, relaxed interest expense tax deduction limitations, and accelerated tax depreciation on certain capital improvements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)* - Measurement of Credit Losses on Financial Instruments. The FASB's new guidance changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income, including trade receivables, based on historical experience, current conditions and reasonable and supportable forecasts. This amendment is effective for interim and annual reporting periods beginning after December 15, 2019. The Company adopted this standard on April 1, 2020. As of December 31, 2020, the standard did not have a material impact on the Company's condensed consolidated financial statements and disclosures.

Recently issued FASB accounting standard codification updates, except for the above standards, did not have a material impact to the Company's unaudited consolidated financial statements for the three or nine months ended December 31, 2020.

2. Revenue from Contracts with Customers

Disaggregation of Revenue

The following table presents our disaggregated revenues by source for the three and nine months ended December 31, 2020 and 2019:

	Three Months Ended December 31, 2020			Three Months Ended December 31, 2019		
	Digital	**Print (1)**	**Total**	**Digital**	**Print (1)**	**Total**
Reported Revenue by segment:						
Higher Education	$ 138,806	$ 29,402	$ 168,208	$ 132,329	$ 30,480	$ 162,809
K-12	66,936	42,952	109,888	57,175	34,349	91,524
International	24,582	22,819	47,401	20,459	45,165	65,624
Global Professional	20,682	14,714	35,396	19,464	24,544	44,008
Other	538	1,071	1,609	641	238	879
Total Reported Revenue	**$ 251,544**	**$ 110,958**	**$ 362,502**	**$ 230,068**	**$ 134,776**	**$ 364,844**

(1) Print revenue contains traditional print, consumable print workbooks and custom revenue.

(Unaudited; dollars in thousands, unless otherwise indicated)

	Nine Months Ended December 31, 2020			Nine Months Ended December 31, 2019		
	Digital	Print (1)	Total	Digital	Print (1)	Total
Reported Revenue by segment:						
Higher Education	$ 362,834	$ 118,242	$ 481,076	$ 321,600	$ 149,325	$ 470,925
K-12	186,147	316,466	502,613	178,924	343,251	522,175
International	51,618	82,066	133,684	42,399	134,416	176,815
Global Professional	59,548	45,165	104,713	54,800	66,588	121,388
Other	1,065	(310)	755	1,831	(699)	1,132
Total Reported Revenue	**$ 661,212**	**$ 561,629**	**$ 1,222,841**	**$ 599,554**	**$ 692,881**	**$ 1,292,435**

(1) Print revenue contains traditional print, consumable print workbooks and custom revenue.

Higher Education

Digital products are generally sold as subscriptions, which are paid for at the time of sale or shortly thereafter, and our performance obligation is satisfied over the life of the subscription. For our print products, our performance obligation is typically satisfied at the time of shipment directly to the student or to our distribution partners, who typically order products several weeks before the beginning of an academic semester to ensure sufficient physical product inventory.

K-12

Our performance obligation from traditional print products is typically satisfied at the time of shipment, which closely aligns with when a school district takes possession of the required number of products at the outset of a multi-year adoption. Traditional print products are typically re-used by students over the term of the adoption, and school districts will occasionally purchase replacement products due to wear or increasing enrollment over the life of the adoption. Sales of these replacement products are known as residual sales, from which we derive a significant portion of our revenue. Our digital solutions are sold as a subscription, which states and districts generally pay for at the beginning of a multi-year adoption. We defer revenue related to digital solutions for the entirety of the contract upfront and satisfy our performance obligation ratably over the term of the contract. Revenues for print workbooks are deferred when we enter into a multi-year contract and our performance obligation is satisfied when delivery takes place, often at the beginning of each academic year over the contract term.

International

Revenue recognition for international products is similar to products sold in the United States, primarily in the Higher Education market. Our performance obligations for traditional print products are typically satisfied upon shipment, while digital performance obligations are satisfied over the contractual term of the product.

Global Professional

Our performance obligations for traditional print products are typically satisfied upon shipment, while our performance obligations for digital products are satisfied over the contractual term.

In addition, revenues are also impacted by our reserve for product returns. To more accurately reflect the economic impact of returns on our operating performance, we reserve a percentage of our gross sales in anticipation of these returns when calculating our net revenues.

(Unaudited; dollars in thousands, unless otherwise indicated)

Significant Judgments

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. We use an observable price to determine the stand-alone selling price for separate performance obligations if available or when not available, an estimate that maximizes the use of observable inputs and faithfully depicts the selling price of the promised goods or services if the entity sold those goods or services separately to a similar customer in similar circumstances.

Deferred Commission Costs

Our incremental direct costs of obtaining a contract, which consist of sales commissions, are deferred and amortized over the expected period of benefit or the related contractual renewal period, depending on whether the contract is an initial or renewal contract, respectively. We classify deferred commission costs as current or non-current based on the timing of when we expect to recognize the expense. The current and non-current portions of deferred commission costs are included in prepaid and other current assets, and other non-current assets, respectively, in our consolidated balance sheets. Deferred commission costs were as follows:

	As of	
	December 31, 2020	**March 31, 2020**
Current	$ 8,487	$ 7,909
Non-current	19,027	18,629
Total Deferred Commission Costs	**$ 27,514**	**$ 26,538**

Amortization expense related to deferred commission costs was $2,232 and $6,582 for three and nine months ended December 31, 2020, respectively, and for three and nine months ended December 31, 2019 was $2,135 and $6,193, respectively.

In addition, there were no impairment losses of deferred commission costs for the three and nine months ended December 31, 2020 and December 31, 2019.

Contract Assets and Contract Liabilities

Our contract assets consist of unbilled receivables that are recorded for contracts with performance obligations that have been satisfied but have not yet been billed. Contract assets are included in accounts receivable, net, on our consolidated balance sheets.

Our contract liabilities consist of revenues from our digital subscription products and multi-year consumable products that are deferred at the time of sale and are recognized in earnings on a pro-rata basis over the term of the subscription or contract period. We classify contract liabilities as current or non-current deferred revenue on our consolidated balance sheets based on the timing of when we expect to recognize revenue.

Contract assets and contract liabilities consisted of the following:

	As of	
	December 31, 2020	**March 31, 2020**
Contract assets	$ 4,302	$ 27,803
Contract liabilities (deferred revenue):		
Current	572,737	497,297
Non-current	644,595	643,643
Total Contract liabilities	**$ 1,217,332**	**$ 1,140,940**

(Unaudited; dollars in thousands, unless otherwise indicated)

Revenue recognized during the three and nine months ended December 31, 2020 from amounts included within deferred revenue at March 31, 2020 was approximately $92,805 and $424,000, respectively.

Revenue recognized during the three and nine months ended December 31, 2019 from amounts included within deferred revenue at March 31, 2019 was approximately $82,424 and $297,959, respectively.

In addition, estimated revenue expected to be recognized in the future related to the $1,217,332 of performance obligations that are unsatisfied or partially satisfied as of December 31, 2020 is approximately 73% over the next one to three years.

Practical expedients

We expense commission costs when incurred related to customer contracts that have a duration of less than one year. We recognize these costs within operating and administration expenses in our consolidated statements of operations.

3. Inventories

Inventories consist of the following:

	As of	
	December 31, 2020	**March 31, 2020**
Finished goods	$ 210,371	$ 242,741
Reserves	(54,983)	(65,698)
Inventories, net	**$ 155,388**	**$ 177,043**

4. Debt

Long-term debt consisted of the following:

		As of	
	Maturity	**December 31, 2020**	**March 31, 2020**
MHGE Senior Notes	May 2024	$ 400,000	$ 400,000
Term Loan Facility	May 2022	1,590,741	1,603,692
MHGE Parent Term Loan	April 2022	190,575	180,000
Receivables Facility	August 2023	45,000	45,000
Total debt outstanding		2,226,316	2,228,692
Less: unamortized debt discount		(34,885)	(42,070)
Less: unamortized deferred financing costs		(20,663)	(27,999)
Less: current portion of long-term debt		(17,269)	(17,269)
Long-Term Debt		**$ 2,153,499**	**$ 2,141,354**

MHGE Senior Notes

On May 4, 2016, the Company issued $400,000 aggregate principal amount of the 7.875% Senior Notes due 2024, ("MHGE Senior Notes") in a private placement. The MHGE Senior Notes mature on May 15, 2024 and bear interest at a rate of 7.875% per annum, payable semi-annually in arrears on May 15 and November 15 of each year, and commenced on November 15, 2016.

As of December 31, 2020, the unamortized debt discount and deferred financing costs was $27,063 and $12,327, respectively, which are amortized over the term of the MHGE Senior Notes using the effective interest method.

The Company may redeem the MHGE Senior Notes at their option, in whole or in part, at any time on or after May 15, 2019, at certain redemption prices.

The MHGE Senior Notes are fully and unconditionally guaranteed by each of McGraw-Hill Global Education Intermediate Holdings, LLC ("MHGE Holdings") domestic restricted subsidiaries that guarantee the Senior Facilities.

The MHGE Senior Notes contain certain customary negative covenants and events of default. The negative covenants limit MHGE Holdings and its restricted subsidiaries' ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loans, acquisitions or investments, materially change its business, engage in transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries, restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of MHGE Holdings' assets.

The fair value of the MHGE Senior Notes was approximately $366,000 and $280,000 as of December 31, 2020 and March 31, 2020, respectively. The Company estimates the fair value of its MHGE Senior Notes based on trades in the market. Since the MHGE Senior Notes do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of December 31, 2020, the remaining contractual life of the MHGE Senior Notes is approximately 3.41 years.

Senior Facilities

On May 4, 2016, the Company entered into the Senior Facilities. The Senior Facilities provide for senior secured financing of up to $1,925,000, consisting of:

- Term Loan Facility in an aggregate principal amount of $1,575,000 with a maturity of 6 years; and

- a senior secured revolving credit facility in an aggregate principal amount of up to $350,000 with a maturity of 5 years (the "Revolving Credit Facility"), including both a letter of credit sub-facility and a swingline loan sub-facility.

On December 15, 2017, the Company completed an incremental aggregate principal amount of $150,000 under the existing Term Loan Facility. The incremental Term Loan Facility was issued at a 0.25% discount and will mature concurrently with the existing Term Loan Facility.

Borrowings under the Senior Facilities bear interest at a rate equal to a LIBOR or Prime rate plus an applicable margin, subject to a 1.00% floor in the case of the Term Loan Facility. As of December 31, 2020, the interest rate for the Term Loan Facility was 5.0%. In addition, the Term Loan Facility was issued at a discount of 0.5%. As of December 31, 2020, the unamortized debt discount and deferred financing costs was $5,067 and $7,350, respectively, which are amortized over the term of the facility using the effective interest method.

As of December 31, 2020, the amount available under the Revolving Facility was $350,000 (excluding outstanding letters of credit of $4,276). In addition, we are required to pay a commitment fee of 0.50% per annum to the lenders under the Revolving Facility in respect of the unutilized commitments thereunder.

The Senior Facilities require scheduled quarterly principal payments on the term loans in amounts equal to 0.25% of the original principal amount of the term loans commencing with the end of the first full fiscal quarter ending after the closing date, with the balance payable at maturity. The Term Loan Facility also includes customary mandatory prepayment requirements based on certain events such as asset sales, debt issuances and defined levels of excess cash flow.

All obligations under the Senior Facilities are unconditionally guaranteed by each of MHGE Holdings' existing and future direct and indirect material, wholly owned domestic subsidiaries. The obligations are secured by substantially all of MHGE Holdings' assets and those of each subsidiary guarantor, capital stock of the subsidiary guarantors and 65% of the voting capital stock of the first-tier foreign subsidiaries that are not subsidiary guarantors, in each case subject to exceptions. Such security interests consist of a first priority lien with respect to the collateral.

Our Revolving Facility includes a springing covenant that requires MHGE Holdings, subject to a testing threshold, comply on a quarterly basis with a maximum net first lien senior secured leverage ratio (the ratio of consolidated net debt secured by first-priority liens on the collateral to Adjusted EBITDA) of (a) with respect to the second, third and fourth fiscal quarters of any year, 4.80 to 1.00 and (b) with respect to the first quarter of any fiscal year 5.25 to 1.00. The testing threshold is satisfied at any time at which the sum of outstanding revolving credit facility loans, swingline loans and certain letters of credit exceeds thirty percent (30%) of commitments under the revolving credit facility at quarter end.

Adjusted EBITDA reflects EBITDA as defined in the credit agreement governing the Senior Facilities. Solely for the purpose of calculating the springing financial covenant, pre-publication investments should be excluded from the calculation of Adjusted EBITDA.

The Senior Facilities contain certain customary affirmative covenants and events of default. The negative covenants in the Senior Facilities include, among other things, limitations on MHGE Holdings' and its subsidiaries' ability to incur additional debt or issue certain preferred shares; create liens on certain assets; make certain loans or investments (including acquisitions); pay dividends on or make distributions in respect of capital stock or make other restricted payments; consolidate, merge, sell or otherwise dispose of all or substantially all of their assets; sell assets; enter into certain transactions with affiliates; enter into sale-leaseback transactions; change their lines of business; restrict dividends from their subsidiaries or restrict liens; change their fiscal year; and modify the terms of certain debt or organizational agreements.

The fair value of the Term Loan Facility was approximately $1,560,914 and $1,333,069 as of December 31, 2020 and March 31, 2020, respectively. The Company estimates the fair value of its Term Loan Facility based on trades in the market. Since the Term Loan Facility do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of December 31, 2020, the remaining contractual life of the Term Loan Facility is approximately 1.41 years.

MHGE Parent Term Loan

On April 20, 2018, the Company, entered into a term loan agreement ("MHGE Parent Term Loan") with Ares Agent Services, L.P., as administrative agent, and clients of Ares Capital Management, LLC and certain funds and accounts advised by Guggenheim Partners Investment Management, LLC, as lenders, providing for a $180 million term loan facility (the "MHGE Parent Term Loan") with a maturity of April 20, 2022. The MHGE Parent Term Loan was issued at a discount of 2.5%.

The MHGE Parent Term Loan bears interest at 11.00% per annum for interest paid in cash and 11.75% per annum for interest paid in kind. Interest is payable semiannually on April 15 and October 15 of each year. The MHGE Parent Term Loan is unsecured and is not guaranteed by any of the MHGE Parent subsidiaries.

As of December 31, 2020, the unamortized debt discount and deferred financing costs was $1,475 and $985, respectively, which are amortized over the term of the MHGE Parent Term Loan using the effective interest method.

The MHGE Parent Term Loan contains certain customary affirmative covenants and events of default that are similar to those contained in the indenture governing the MHGE Senior Notes. The negative covenants in the MHGE Parent Term Loan limit MHGE Parent and its subsidiaries' ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loan, acquisitions or investments, materially change its business, engage into transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries or restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of MHGE Parent's assets.

The fair value of the MHGE Parent Term Loan was approximately $187,127 and $153,036 as of December 31, 2020 and March 31, 2020, respectively. The Company estimates the fair value of its MHGE Parent Term Loan based on trades in the market. Since the MHGE Parent Term Loan do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of December 31, 2020, the remaining contractual life of the MHGE Parent Term Loan is approximately 1.32 years.

Receivables Facility

On October 29, 2018, MHE Receivables LLC (the "Borrower"), a newly formed special purpose subsidiary of McGraw Hill LLC, entered into a Receivables Financing Agreement ("RFA") with PNC Bank, National Association, as administrative agent (the "Administrative Agent"), providing for a receivables financing facility up to a committed principal amount of $50,000 (the "Receivables Facility") with a original maturity of October 29, 2021. On August 28, 2020, the agreement was amended to extend the maturity date to August 28, 2023.

Furthermore, an additional principal amount of $100,000 has been committed for each seasonal period, which is subject to an annual audit but committed through to August 2023. The borrowing capacity under the Receivables Facility is subject to a borrowing limit that is based on the Borrower's Eligible Receivables, as defined in the RFA. Under a Purchase and Sale Agreement entered into in connection with the Receivables Facility, all existing receivables of McGraw Hill LLC have been assigned to the Borrower and all future receivables of McGraw Hill LLC will be automatically assigned to the Borrower when they are created.

As of December 31, 2020, $45,000 was outstanding under the Receivables Facility which is included in long-term debt, within the consolidated balance sheet. Borrowings under the Receivables Facility bear interest at LIBOR plus 3.75%, subject to adjustments, and are payable monthly. In addition, we also incur an undrawn fee of 0.50% on unutilized commitments. As of December 31, 2020, the unamortized deferred financing costs was $1,280, which are amortized over the term of the Receivables Facility using the effective interest method.

(Unaudited; dollars in thousands, unless otherwise indicated)

Scheduled Principal Payments

The scheduled principal payments required under the terms of the MHGE Senior Notes, Senior Facilities, MHGE Parent Term Loan and Receivables Facility were as follows:

	As of December 31, 2020
Remainder of Fiscal 2021	4,317
2022	17,269
2023	1,759,730
2024	45,000
2025	400,000
2026 and beyond	—
	2,226,316
Less: Current portion	(17,269)
	$ 2,209,047

5. Interest Rate Hedge

On March 15, 2017, the Company entered into interest rate swap agreements with various financial institutions having an aggregate notional value of $500,000 to convert a portion of its variable-rate debt to a fixed rate debt. The Company will receive payments from the counterparties at one-month LIBOR and make payments to the counterparties at a fixed rate of 2.07%. The cash flow payments on the interest rate swap agreements began in April 2017 and terminate April 2022. The notional amount and interest payment date of the interest rate and interest rate swaps match the principal, interest payment and maturity date of the related debt.

On March 31, 2020, the Company discontinued hedge accounting as the hedge accounting requirements were no longer met. The Company elected to move to three month LIBOR from one month LIBOR for the hedge item resulting in the hedging relationship with hedge instrument to cease to exist as the hedge instrument was based on one month LIBOR. Amounts in accumulated other comprehensive loss associated with the interest rate swaps as of the date of dedesignation, will be reclassified to interest expense as the hedged interest payments impact earnings.

We recorded an unrealized gain of $(132) and $(1,534) which is included in interest expense (income), net within in our consolidated statements of operations, to account for the changes in fair value of these derivatives during the three and nine months ended December 31, 2020. The corresponding hedge liability of $12,070 and $15,677 is included within other non-current liabilities in our consolidated balance sheets as of December 31, 2020 and March 31, 2020, respectively.

The Company records the fair value of its interest rate swap agreements on a recurring basis using Level 2 inputs of quoted prices for similar assets or liabilities in active markets.

6. Segment Reporting

The Company manages and reports its businesses in the following segments:

- **Higher Education:** We provide students, instructors and institutions with adaptive digital learning, tools, digital platforms, custom publishing solutions, traditional printed textbook and rental textbook products.

- **K-12:** Provides curriculum and learning solutions to the K-12 market. We sell our learning solutions directly to K-12 school districts across the United States. While we offer all of our major curriculum and learning solutions in digital format, given the varying degrees of availability and maturity of our customers' technological infrastructure, a majority of our sales are derived from selling blended print and digital solutions.

- **International:** We leverage our global scale, brand recognition and extensive product portfolio to serve students in the higher education, K-12 and global professional markets in more than 100 countries outside of the United States. Our products and solutions for the International segment are produced in more than 75 languages and primarily originate from our offerings produced for the United States market and that are later adapted to different international markets.

- **Global Professional:** We are a leading provider of medical, technical, engineering and business content for the global professional, education and test preparation communities.

- **Other:** Includes certain transactions or adjustments that our Chief Operating Decision Maker ("CODM") considers to be timing related, unusual and/or non-operational.

The Company's business segments are consistent with how management views the markets served by the Company. The CODM reviews their separate financial information to assess performance and to allocate resources. We measure and evaluate our reportable segments based on segment Billings and Adjusted EBITDA and believe they provide additional information to management and investors to measure our performance and evaluate our ability to service our indebtedness. We include the change in deferred revenue to GAAP revenue to arrive at Billings. Billings is a key metric that we use to manage our business as it reflects the sales activity in a given period and provides comparability during this time of digital transition, particularly in the K-12 market, in which our customers typically pay for five to eight-year contracts upfront. Furthermore, Billings incorporates the change in deferred revenue that is reflected in the calculation of Adjusted EBITDA. Therefore when the Company uses a margin calculation based on Adjusted EBITDA, the margin has to be based on Billings. We exclude from segment Adjusted EBITDA: interest expense (income), net, income tax (benefit) provision, depreciation, amortization and pre-publication amortization and certain transactions or adjustments that our CODM does not consider for the purposes of making decisions to allocate resources among segments or assessing segment performance. Although we exclude these amounts from segment Adjusted EBITDA, they are included in reported consolidated net income (loss) and are included in the reconciliation below.

Billings and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP and the use of the terms, Billings and Adjusted EBITDA, varies from others in our industry. Billings and Adjusted EBITDA should be considered in addition to, not as a substitute for, revenue and net income (loss), or other measures of financial performance derived in accordance with U.S. GAAP as measures of operating performance or cash flows as measures of liquidity.

Segment asset disclosure is not used by the CODM as a measure of segment performance since the segment evaluation is driven by Billings and Adjusted EBITDA. As such, segment assets are not disclosed in the notes to the accompanying unaudited consolidated financial statements.

(Unaudited; dollars in thousands, unless otherwise indicated)

The following tables set forth information about the Company's operations by its segments:

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
Billings:		
Higher Education	104,353	110,828
K-12	57,453	43,312
International	41,308	59,738
Global Professional	44,651	52,974
Other	443	926
Total Billings (1)	248,208	267,778
Change in deferred revenue	114,294	97,066
Total Consolidated Revenue	**$ 362,502**	**$ 364,844**

(1) The elimination of inter-segment revenues was not significant to the revenues of any one segment.

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
Adjusted EBITDA:		
Higher Education	$ 14,036	$ 4,061
K-12	(28,433)	(58,675)
International	1,110	8,708
Global Professional	17,452	20,207
Other	(3,600)	2,164
Total Adjusted EBITDA	**$ 565**	**$ (23,535)**

(Unaudited; dollars in thousands, unless otherwise indicated)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Billings:		
Higher Education	$ 501,353	$ 489,320
K-12	541,123	616,181
International	142,319	181,262
Global Professional	113,704	132,295
Other	734	1,686
Total Billings (1)	1,299,233	1,420,744
Change in deferred revenue	(76,392)	(128,309)
Total Consolidated Revenue	**$ 1,222,841**	**$ 1,292,435**

(1) The elimination of inter-segment revenues was not significant to the revenues of any one segment.

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Adjusted EBITDA:		
Higher Education	$ 195,809	$ 151,727
K-12	177,865	190,468
International	17,284	18,633
Global Professional	35,924	43,538
Other	13,016	7,047
Total Adjusted EBITDA	**$ 439,898**	**$ 411,413**

Reconciliation of Adjusted EBITDA to the consolidated statements of operations is as follows:

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
Total Adjusted EBITDA	$ 565	$ (23,535)
Interest (expense) income, net	(43,898)	(42,832)
Provision for taxes on income	(3,513)	(4,974)
Depreciation, amortization and pre-publication amortization	(45,592)	(50,409)
Change in deferred revenue	114,294	97,066
Change in deferred royalties	(11,754)	(8,467)
Change in deferred commissions	(1,400)	(1,780)
Restructuring and cost savings implementation charges	(6,919)	(13,496)
Sponsor fees	(875)	(875)
Transaction costs	—	(3,291)
Merger Integration costs	—	(1,513)
Other	(810)	(8,842)
Pre-publication investment	17,796	22,752
Net (loss) income	**$ 17,894**	**$ (40,196)**

(Unaudited; dollars in thousands, unless otherwise indicated)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Total Adjusted EBITDA	$ 439,898	$ 411,413
Interest (expense) income, net	(129,969)	(135,147)
Provision for taxes on income	(8,354)	(10,767)
Depreciation, amortization and pre-publication amortization	(150,937)	(174,597)
Change in deferred revenue	(76,392)	(128,309)
Change in deferred royalties	22,091	20,207
Change in deferred commissions	976	1,956
Restructuring and cost savings implementation charges	(19,034)	(21,606)
Sponsor fees	(2,625)	(2,625)
Transaction costs	(4,470)	(13,684)
Merger Integration costs	—	(7,030)
Other	(5,756)	(26,461)
Pre-publication investment	52,675	58,369
Net (loss) income	**$ 118,103**	**$ (28,281)**

The following is a schedule of revenue and long-lived assets by geographic region:

	Revenue (1)			
	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
United States	$ 310,823	$ 287,012	$ 1,078,765	$ 1,086,378
International	51,679	77,832	144,076	206,057
Total	**$ 362,502**	**$ 364,844**	**$ 1,222,841**	**$ 1,292,435**

(1) Revenues are attributed to a geographic region based on the location of customer.

	Long-lived Assets (2)	
	As of	
	December 31, 2020	March 31, 2020
United States	$ 479,103	$ 470,627
International	41,765	44,515
Total	**$ 520,868**	**$ 515,142**

(2) Reflects total assets less current assets, goodwill, intangible assets, investments, deferred financing costs and non-current deferred tax assets.

7. Taxes on Income

For the three months ended December 31, 2020 and December 31, 2019, the income tax provision was \$3,513 and \$4,974 and effective tax rate was 16.4% and (14.1)%, respectively. For the nine months ended December 31, 2020 and December 31, 2019, the income tax provision was \$8,354 and \$10,767 and effective tax rate was 6.6% and (61.5)%, respectively. A valuation allowance has been recorded for net federal and state and certain foreign deferred tax assets due to the negative evidence of cumulative book losses.

(Unaudited; dollars in thousands, unless otherwise indicated)

For the nine months ended December 31, 2020, no deferred income tax provision was recorded against domestic operating income, and no deferred income tax benefit was recognized for certain foreign losses on operations as a result of the valuation allowance. For the nine months ended December 31, 2019, no deferred income tax benefit was recognized for the domestic and certain foreign losses on operations as a result of the valuation allowance against these tax benefits.

At the end of each interim period, we estimate the annual effective tax rate and apply that rate to our ordinary quarterly earnings. The tax expense or benefit related to significant, unusual or extraordinary items that will be separately reported or reported net of their related tax effect that are individually computed, are recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The CARES Act is an approximately $2 trillion emergency economic stimulus package in response to the Coronavirus outbreak, which amount other things, contains several payroll and income tax provisions which will favorably impact the Company including deferral of payment of of employer Social Security taxes, relaxed interest expense tax deduction limitations, and accelerated tax depreciation on certain capital improvements.

8. Stock-Based Compensation

The Company issues share based compensation under the Management Equity Plan (the “Plan”) which was established during the quarter ended June 30, 2013. The Plan permits the grant of stock options, restricted stock, restricted stock units and other equity based awards to the Company’s employees and directors.

The Company measures compensation cost for share based awards according to the equity method. In accordance with the expense recognition provisions of those standards, the Company amortizes unearned compensation associated with share based awards on a straight-line basis over the vesting period of the option or award.

The following table sets forth the total recognized compensation expense related to stock option grants and restricted stock and restricted stock units issuances for all periods presented:

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Stock option expense	$ 566	$ 50	$ 1,514	$ 1,951
Market stock option expense	—	1,119	—	2,003
Restricted stock and unit awards expense	851	3,078	2,481	6,426
Total stock-based compensation expense	**$ 1,417**	**$ 4,247**	**$ 3,995**	**$ 10,380**

An income tax benefit for stock options and restricted stock units was recognized and subsequently offset with a full valuation allowance for the three and nine months ended December 31, 2020 and 2019.

Stock Options

Stock options issued prior to 2018 generally vest up to five years with 50% vesting on cumulative financial performance measures under the Plan and the remaining 50% vesting annually in equal installments, in each case subject to continued service. Stock options issued during the year ended December 31, 2018, generally vest up to three years annually in equal installments and are subject to continued service. Stock options terminate on the earliest of the tenth year from the date of the grant or other committee action, as defined under the Plan.

Stock options issued during fiscal year 2021 are subject to 50% vesting annually in equal installments over a four year period and 50% vesting upon satisfaction of certain performance and market conditions, and in each case subject to continued service.

As of December 31, 2020, there was $4,052 of unrecognized compensation expense related to the Company's grant of nonvested stock options. Unrecognized compensation expense related to nonvested stock options granted to employees is expected to be recognized over a weighted-average period of 3.22 years.

Market Stock Options

During 2018, the Company issued market stock options ("MSOs") to certain employees of the Company. The MSOs vest over two to four years pursuant to certain market conditions set forth by the Company and subject to continued service. Employees can earn between 0% and 150% of the number of MSOs issued based on the attainment of these market-based conditions. These MSOs were canceled on July 1st, 2020. As of March 31, 2020, compensation expense related to MSOs issued to employees was fully recognized.

Restricted stock and restricted stock units

Restricted stock and restricted stock units (collectively, "RSUs") issued prior to 2017 vest either subject to the achievement of certain performance measures and continued service over a three year period, or vest in equal installments over a three year period subject only to continued service. RSUs issued since December 31, 2017 vest in equal installments over a two to four year period subject only to continued service. RSUs issued during the fiscal year March 31, 2021, 50% vest annually in four equal installments and 50% vest on satisfaction of certain performance and market-based conditions, and in each case subject to continued service.

As of December 31, 2020, there was $4,915 of unrecognized compensation expense related to the Company's grant of nonvested restricted shares and restricted stock units to employees. Unrecognized compensation expense related to nonvested restricted shares and restricted stock units granted to employees is expected to be recognized over a weighted-average period of 2.60 years.

9. Restructuring

In order to contain costs and mitigate the impact of current and expected future economic conditions, as well as a continued focus on process improvements, we have initiated various restructuring plans over the last several years. The charges for each restructuring plan are classified as operating and administration expenses within the consolidated statements of operations.

In certain circumstances, reserves are no longer needed because of efficiencies in carrying out the plans, or because employees previously identified for separation resigned from the Company and did not receive severance or were reassigned due to circumstances not foreseen when the original plans were initiated. In these cases, we reverse reserves through the consolidated statements of operations when it is determined they are no longer needed.

(Unaudited; dollars in thousands, unless otherwise indicated)

The following table summarizes restructuring information by reporting segment:

	Higher Education	K-12	International	Global Professional	Total
As of March 31, 2020	**$ 2,308**	**$ 7,772**	**$ 585**	**$ —**	**$ 10,665**
Charges:					
Employee severance and other personal benefits	9,229	—	2,290	—	11,519
Payments:					
Employee severance and other personal benefits	(4,688)	(7,899)	(2,381)	—	(14,968)
As of December 31, 2020	**$ 6,849**	**$ (127)**	**$ 494**	**$ —**	**$ 7,216**

The Company expects to utilize the remaining reserves of $3,845, and $3,371, in fiscal year 2021 and 2022, respectively.

10. Leases

We lease property under operating leases with expiration dates through 2035 as well as computer systems and office equipment under finance leases with lease terms ranging from 12 to 50 months. For operating lease arrangements with terms greater than 12 months, we record a lease liability and right-of-use asset on our consolidated balance sheets at the lease commencement date. We measure lease liabilities based on the present value of the total lease payments not yet paid. As most of our leases do not provide an implicit rate, we use our estimated incremental borrowing rate at the lease commencement date to determine the present value of the total lease payments. We measure right-of-use assets based on the corresponding lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs we incur and (iii) tenant incentives under the lease. Certain lease arrangements contain escalation clauses covering increased costs for various defined real estate taxes and operating services which are factored into our determination of lease payments, however, we do not assume renewals or early terminations unless we are reasonably certain to exercise these options at commencement, and we do not allocate consideration between lease and non-lease components.

For short-term leases, we record expense in our consolidated statement of operations on a straight-line basis over the lease term.

(Unaudited; dollars in thousands, unless otherwise indicated)

Lease position as of December 31, 2020 and March 31, 2020

The table below presents the lease-related assets and liabilities recorded on the consolidated balance sheet:

	Classification on the Balance Sheet	As of December 31, 2020	As of March 31, 2020
Assets			
Operating leases	Operating lease right-of-use assets	$ 61,257	$ 69,315
Finance leases	Property and equipment, net	32,065	26,172
Total lease assets		**$ 93,322**	**$ 95,487**
Liabilities			
Current:			
Operating leases	Operating lease liabilities	$ 10,751	$ 13,424
Finance Leases	Other current liabilities	10,253	12,192
Non-current:			
Operating leases	Operating lease liabilities	83,855	89,830
Finance leases	Other non-current liabilities	25,251	15,802
Total lease liabilities		**$ 130,110**	**$ 131,248**
Weighted-average remaining lease term:			
Operating leases		11.85	11.66
Finance Leases		3.18	2.87
Weighted-average discount rate:			
Operating leases		11.07%	11.01%
Finance Leases		10.21%	7.50%

Lease costs

The table below presents certain information related to the lease costs for operating and finance leases during the three and nine months ended December 31, 2020 and 2019:

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
Operating lease cost	$ 5,875	$ 7,524
Short-term lease cost	299	379
Finance lease cost:		
Amortization of assets	2,857	2,531
Interest on lease liabilities	695	390
Sub-lease income	(858)	(1,006)
Total net lease cost	**$ 8,868**	**$ 9,818**

(Unaudited; dollars in thousands, unless otherwise indicated)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Operating lease cost	$ 16,977	$ 22,475
Short-term lease cost	898	957
Finance lease cost:		
Amortization of assets	8,713	7,219
Interest on lease liabilities	1,987	1,026
Sub-lease income	(2,506)	(2,845)
Total net lease cost	**$ 26,069**	**$ 28,832**

Other Information

Supplemental cash flow information related to leases was as follows:

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 16,297	$ 17,996
Operating cash flows from finance leases	2,058	1,026
Financing cash flows from finance leases	9,047	10,538

Undiscounted cash flows

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating and finance lease liabilities recorded on the balance sheet:

	As of December 31, 2020	
	Operating Leases	Finance Leases
Remainder of 2021	$ 5,677	$ 3,749
2022	18,137	13,029
2023	14,131	12,559
2024	13,800	9,404
2025	11,693	3,044
2026 and beyond	111,434	—
Total lease payments	174,872	41,785
Less: amounts related to interest	(80,266)	(6,281)
Total lease liabilities	94,606	35,504
Less: Current liabilities	(10,751)	(10,253)
Non-current lease liabilities	**$ 83,855**	**$ 25,251**

11. Transactions with Apollo Global Management LLC (the "Sponsors")

Transactions Fee Agreement

The Company entered into a transaction fee agreement on March 22, 2013 (the "Transactions Fee Agreement") with Apollo Global Securities, LLC (the “Service Provider”) relating to the provision of certain structuring, financial, investment banking and other similar advisory services by the Service Provider to the Company, its direct and indirect divisions and subsidiaries, parent entities or controlled affiliates (collectively, the “Company Group”) in connection with future transactions. Subject to the terms and conditions of the Transactions Fee Agreement, a transaction fee equal to 1% of the aggregate enterprise value is payable in connection with any merger, acquisition, disposition, recapitalization, divestiture, sale of assets, joint venture, issuance of securities (whether equity, equity-linked, debt or otherwise), financing or any similar transaction effected by a member of the Company Group. For the three and nine months ended December 31, 2020 and December 31, 2019, no transaction fees were recorded.

Management Fee Agreement

The Company entered into a management fee agreement (the “Management Fee Agreement”) with Apollo Management VII, L.P. (the “Advisor”) on March 22, 2013, relating to the provision of certain management consulting and advisory services to the members of the Company Group. In exchange for the provision of such services, the Advisor will receive a non-refundable annual management fee of $3,500 in the aggregate. Subject to the terms and conditions of the Management Fee Agreement, upon a change of control or an initial public offering (“IPO”) of a member of the Company Group, the Advisor may elect to receive a lump sum payment in lieu of future management fees payable to them under the Management Fee Agreement. For the three months ended December 31, 2020 and 2019, the Company recorded an expense of $875 for management fees. For the nine months ended December 31, 2020 and 2019, the Company recorded an expense of $2,625 for management fees.

12. Commitments and Contingencies

Legal Matters

In 2016, MHE filed a complaint against Illinois National Insurance Company ("INIC") in the Supreme Court of the State of New York seeking a declaration that it is entitled to full insurance benefits under several multi-media policies with INIC which has denied liability and asserted a counterclaim on November 28, 2016 in the Action seeking (i) a declaratory judgment that MHE is not entitled to the coverage sought; (ii) recoupment of indemnity payments already made by INIC on the claims; and (3) recoupment of defense costs reimbursed by INIC. On December 17, 2019, the First Department ruled that MHE is entitled to coverage for damages related to the Copyright Actions under the policies and referred the case back to the trial court for a determination of damages. On June 22, 2020, the parties reached an agreement related to the Copyright Actions lawsuit filed in 2016 in the Company's favor. The results of this agreement are reflected in the financial statements.

McGraw-Hill was one of several named defendants in multiple separate lawsuits that were brought in 2020 in various federal courts, purporting to be class actions on behalf of students and in one case, off campus bookstores. The lawsuits each alleged, among other things, that McGraw-Hill's (and other competitors) inclusive access programs violate various Federal antitrust laws by reducing competition from the secondary market and from off campus bookstores. Certain distribution channel partners were also named defendants. On August 11, 2020, the Judicial Panel on Multidistrict Litigation granted the defendants' motion to consolidate all the lawsuits into a single action and selected the District Court in the Southern District of New York for its adjudication. Plaintiffs have filed amended complaints in the consolidated action. The defendants are working together in their defense and in January 2021 filed a motion to dismiss the amended complaints. The parties are awaiting the judge’s ruling.

On January 22, 2021 and February 8, 2021, respectively, two purported class actions were filed against the Company in the Southern District of New York. The actions stem from the recent refinements the Company made to how it calculates royalties that are payable to certain authors in connection with content delivery via the Company's online platform. The allegations in the two complaints are similar. Each alleges, among other things, that the adjusted royalty approach breaches the relevant author agreements. In each case, the Company has 60 days from service of the complaint to answer or otherwise respond to the complaint. The Company believes that the allegations in the complaints are without merit.

In the normal course of business both in the United States and abroad, the Company is a defendant in various lawsuits and legal proceedings which may result in adverse judgments, damages, fines or penalties and is subject to inquiries and investigations by various governmental and regulatory agencies concerning compliance with applicable laws and regulations. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the timing, eventual outcome, or eventual judgment, damages, fines, penalties or other impact of these pending matters will be. We believe, based on our current knowledge, that the outcome of the legal actions, proceedings and investigations currently pending should not have a material adverse effect on the Company's financial condition.

13. Related Party Transactions

In the normal course of business, the Company has transactions with its wholly owned consolidated subsidiaries and affiliated entities.

RackSpace

The Company has an agreement with RackSpace, Inc., a portfolio company of the Sponsors, primarily related to managed cloud and hosting services. For the three months ended December 31, 2020 and 2019, the Company paid RackSpace $2,052 and $3,773, respectively. For the nine months ended December 31, 2020 and 2019, the Company paid this vendor $12,202 and $11,062, respectively.

University of Phoenix

University of Phoenix is owned by Apollo Education Group, which was acquired by the Sponsors and certain co-investors in February 2017. For the three months ended December 31, 2020 and 2019, the Company's sales to University of Phoenix totaled $19 and $2,721, respectively. For the nine months ended December 31, 2020 and 2019, the Company's sales to University of Phoenix totaled $2,021 and $4,448, respectively.

14. Subsequent Events

Senior Facilities

On January 6, 2021, the Company completed the amendment to its existing first lien credit agreement (the "Existing Credit Agreement" and, together with the New Credit Agreement, the "Credit Facilities") to (i) modify certain provisions of the Existing Credit Agreement and related loan documents, (ii) following such modification, to extend the maturity of the term loans under the Existing Credit Agreement (the "Existing First Lien Term Loans") and to exchange such Existing First Lien Term Loans for new term loans (the "Extended Term Loans") under a new first lien credit agreement (the "New Credit Agreement") and (iii) extend the maturity date of existing revolving facility commitments (the "Existing Revolving Facility Commitments") established under the New Credit Agreement (collectively, the "Extension Transaction").

The Company received consents to the Extension Transactions from holders of approximately $1,560,000 (or approximately 98%) of the Existing First Lien Term Loans and holders of approximately $325,000 (or approximately 93%) of the Existing Revolving Facility Commitments. On the Closing Date, the Company voluntarily repaid approximately $196,000 of the Extended Term Loans held by the extending term lenders and voluntarily terminated approximately $65,000 of the Extended Revolving Facility Commitments of the extending revolving lenders. After giving effect to the repayments and commitment terminations, there are approximately $1,370,000 of Extended Term Loans and approximately $260,000 of Extended Revolving Facility Commitments outstanding under the New Credit Agreement. In addition, there are approximately $27,000 of Existing First Lien Term Loans and approximately $25,000 of Existing Revolving Facility Commitments outstanding under the

Existing Credit Agreement. The obligations under the New Credit Agreement are fully and unconditionally guaranteed, jointly and severally, by MHGE Intermediate Holdings and by the Company's present and future direct or indirect wholly owned material domestic subsidiaries.

The Extended Term Loans bear interest at a rate equal to LIBOR (subject to a 1.00% per annum floor) plus 4.75% per annum and will mature on November 1, 2024.

Loans under the Extended Revolving Facility Commitments bear interest at a rate equal to LIBOR plus a margin of 4.25-4.75% per annum depending on the net first lien leverage ratio, with the initial margin being 4.75% per annum. The Extended Revolving Facility Commitments will terminate on November 1, 2023.

The New Credit Agreements contains customary financial covenants and events of default under which the obligations thereunder could be accelerated.

Refinancing Transactions

Concurrent with the closing of the Extension Transaction described above, the Company completed the issuance of $686,695 of new 8% junior-priority senior secured notes due November 2024 (the "New Senior Secured Notes"), consisting of (i) $329,503 aggregate principal amount of the New Senior Secured Notes issued for cash; (ii) $346,111 aggregate principal amount of the New Senior Secured Notes issued in exchange for the Company's 7.875% MHGE Senior Notes due 2024 (the "Unsecured Notes"); and (iii) $11,081 aggregate principal amount of the New Senior Secured Notes issued in exchange for MHGE Parent Term Loan under MHGE Parent, LLC's term loan agreement.

The Company, in its sole discretion, had the option to repay all or a portion of the MHGE Parent Term Loan in cash. The Company elected to repay $179,494 aggregate principal amount of the MHGE Parent Term Loan using $50,000 cash on balance sheet and cash proceeds from the New Senior Secured Notes. The issuance and sale of the New Senior Secured Notes, the exchange of the Unsecured Notes, the exchange and repayment of the MHGE Parent Term Loan and the payment of related fees and expenses are referred to as the "Refinancing Transactions". After giving effect to the Refinancing Transactions, $53,889 aggregate principal amount of the Unsecured Notes remain outstanding.

The Issuers' obligations under the New Senior Secured Notes are fully and unconditionally guaranteed, jointly and severally, by the Company's present and future direct or indirect wholly owned material domestic subsidiaries that guarantee each of the Credit Facilities. The New Senior Secured Notes will be secured by junior-priority security interests in, subject to permitted liens and certain exceptions, substantially all of the existing and future assets of the Issuers and the subsidiary guarantors that also secure the obligations under the New Credit Agreement, and will be effectively junior to the obligations under the obligations under the New Credit Agreement to the extent of the value of the collateral.

In connection with the refinancing transactions described above, the Company estimated debt issuance costs from the lenders and third parties of approximately $18,000.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides a narrative of our results of operations and financial condition for the three and nine months ended December 31, 2020 and 2019. You should read the following discussion of our results of operations and financial condition in conjunction with the accompanying unaudited financial statements and notes thereto, appearing elsewhere in this document.

Company Overview

We are a leading provider of outcome-focused learning solutions, delivering both curated content and digital learning tools and platforms to the students in the classrooms of approximately 250,000 higher education instructors, approximately 13,000 pre-kindergarten through 12th grade ("K-12") school districts and a wide variety of academic institutions, professionals and companies in more than 100 countries. We have evolved our business from a printcentric producer of textbooks and instructional materials to a leader in the development of digital content and technology-enabled adaptive learning solutions that are delivered anywhere, anytime. We believe we have established a reputation as an industry leader in the delivery of innovative educational content and methodologies.

As learners and educators have become increasingly outcome-focused in their search for more effective learning solutions, we have embraced adaptive learning tools as a central feature of our digital learning solutions. Adaptive learning is based on educational theory and cognitive science that emphasizes personalized delivery of concepts, continuous assessment of gained and retained knowledge and skills, and design of targeted and personalized study paths that help students improve in their areas of weakness while retaining competencies. We have developed a unique set of digital solutions by combining innovative adaptive learning methods with our proprietary content and digital delivery platforms. These solutions provide immediate feedback, and we believe they are more effective than traditional print textbooks in driving positive student outcomes. Students' year-over-year performance can be impacted by many factors outside the instructional materials used in class. We believe that even taking into account these factors, our learning solutions can contribute to significant improvements in students' classroom performance as well as improved student retention. For the instructor, time spent on active learning experiences increases significantly as a result of a reduction in time spent on administrative tasks and the availability of critical data to help better focus in class instruction.

Business Segments

We have four operating business segments: Higher Education, K-12, International and Global Professional. Higher Education segment generated 40% and 41%, of total revenue for the years ended March 31, 2020, and 2019, respectively. Our K-12 segment generated 37% and 35%, of total revenue for the years ended March 31, 2020 and 2019, respectively. Our International segment generated 15% of total revenue for the years ended March 31, 2020 and 2019. Our Global Professional segment represents 8% of total revenue for the years ended March 30, 2020 and 2019. The remaining total revenue relates to adjustments made for in-transit product sales.

Higher Education

In the higher education market in the United States, we provide students, instructors and institutions with adaptive digital learning tools, digital platforms, custom publishing solutions and traditional printed textbook products with capabilities in adaptive learning, homework tools, lecture capture and Learning Management System ("LMS") integration for post-secondary markets. Although we cover all major academic disciplines, our content portfolio is organized into three key disciplines: (i) Business, Economics & Career; (ii) Science, Engineering & Math; and (iii) Humanities, Social Science & Languages. Our top selling products include *Economics: Principles, Problems, and Policies* (McConnell/Brue/Flynn), *ALEKS, Managerial Accounting* (Garrison) and *The Art of Public Speaking* (Lucas). The primary users of our solutions are students enrolled in two- and four-year non-profit colleges and universities, and to a much lesser extent, for-profit institutions.

We sell our Higher Education solutions to well-known online retailers, distribution partners and college bookstores, who subsequently sell to students. Our own direct-to-student sales channel is increasing via our proprietary e-commerce platform, which currently represents the largest distribution channel in this segment. Although we sell our products to the students as end users, it is the instructor that makes the ultimate decision regarding new materials for the course. We have longstanding and exclusive relationships with many authors and nearly all of our products are covered by copyright in major markets, providing us the exclusive right to produce and distribute such content in those markets during the applicable copyright terms.

In addition, affordability initiatives are a key focus with strong digital activation growth led by our Inclusive Access institutional delivery and the launch of our formal rental program which was introduced in the fall of 2018 for our new copyright Higher Education titles with rental agreements executed with all major distribution partners.

K-12

In the K-12 market in the United States, we primarily sell curriculum and learning solutions, which include core basal programs, intervention and supplemental products, formative assessment tools, teaching resources and professional development programs. We sell our learning solutions directly to school districts across the United States. The process through which products are selected and procured for classroom use varies throughout the United States. Eighteen states, known as adoption states, approve and procure new basal programs, usually every five to eight years on a state-wide basis for each major area of study, before individual schools or school districts are permitted to schedule the purchase of materials. In all remaining states, known as open territories, each individual school or school district can procure materials at any time, though they usually do so on a five to eight year cycle. The student population in adoption states represents approximately 47% of the U.S. elementary and secondary school-age population. Many adoption states provide “categorical funding” for instructional materials, which means that state funds cannot be used for any other purpose. While we offer all of our curriculum and learning solutions in digital format, given the varying degrees of availability and maturity of our customers’ technological infrastructure, a majority of our sales are derived from blended print and digital solutions. Our top selling programs are *Reading Wonders, Everyday Math, Inspire Science and ALEKS K-12.*

International

Our International segment, defined as sales outside the United States, serves students in the higher education, K-12 and professional markets in more than 100 countries. Our products and solutions for the International segment are produced in more than 75 languages and primarily originate from our offerings for the United States market, which are later adapted to meet the needs of individual geographies. Sales of our digital offerings are growing significantly in the international market, and we are continuously increasing our inventory of digital programs. The growth in the use of the English language is also a driver of demand for digital learning solutions and printed educational instructional materials.

Global Professional

In the professional market in the United States and Internationally, we provide medical, technical, engineering and business content for the professional, education and test preparation communities. Our digital subscription products are sold to more than 2,200 customers including corporations, academic institutions, libraries and hospitals. Our digital subscription products had a 95% annual retention rate in fiscal year 2020.

As previously announced, effective April 1st 2020, the Professional segment includes global sales. This segment is now identified as "Global Professional". In prior periods, Global Professional products sold in International markets were reported under the International segment. This realignment is consistent with how the Company's CEO, who is the Company's Chief Operating Decision Maker: (i) regularly assess operating performance, (ii) make resource allocation decisions and (iii) designate responsibilities of his direct reports. Prior period segment results have been revised to the new segment presentation. There were no changes to our consolidated financial results.

Other

Other represents certain transactions or adjustments that are unusual or non-operational. In addition, adjustments made for in-transit product sales, timing related corporate cost allocations and other costs not attributed to a single operating segment are recorded within Other.

Consolidated Operating Results

The following tables set forth certain unaudited consolidated financial information for the three and nine months ended December 31, 2020 and 2019. The following tables and discussion should be read in conjunction with the information contained in our unaudited consolidated financial statements and the notes thereto which are included elsewhere in this document.

Consolidated Operating Results for the Three Months Ended December 31, 2020 and 2019

(Dollars in thousands)	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	$ Change	% Change
Revenue	$ 362,502	$ 364,844	$ (2,342)	(0.6)%
Cost of sales	68,979	77,280	(8,301)	(10.7)%
Gross profit	293,523	287,564	5,959	2.1 %
Operating expenses				
Operating and administration expenses	198,166	255,007	(56,841)	(22.3)%
Depreciation	15,711	15,582	129	0.8 %
Amortization of intangibles	14,341	17,327	(2,986)	(17.2)%
Total operating expenses	228,218	287,916	(59,698)	(20.7)%
Operating income	65,305	(352)	65,657	n/m
Interest expense (income), net	43,898	42,832	1,066	2.5 %
Other (income) expense	—	(7,962)	7,962	n/m
(Loss) income from operations before taxes on income	21,407	(35,222)	56,629	n/m
Income tax provision	3,513	4,974	(1,461)	(29.4)%
Net (loss) income	**$ 17,894**	**$ (40,196)**	**$ 58,090**	**n/m**

Revenue

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	$ Change	% Change
Reported Revenue by segment:				
Higher Education	$ 168,208	$ 162,809	$ 5,399	3.3 %
K-12	109,888	91,524	18,364	20.1 %
International	47,401	65,624	(18,223)	(27.8)%
Global Professional	35,396	44,008	(8,612)	(19.6)%
Other	1,609	879	730	83.0 %
Total Reported Revenue	**$ 362,502**	**$ 364,844**	**$ (2,342)**	**(0.6)%**

Revenue for the three months ended December 31, 2020 and 2019 was $362.5 million and $364.8 million, respectively, a decrease of $2.3 million or 0.6%. The decrease was driven by the segment factors described below.

Higher Education

Higher Education revenue for the three months ended December 31, 2020 and 2019 was $168.2 million and $162.8 million, respectively, a increase of $5.4 million or 3.3%. The increase was primarily due to:

- increased revenue primarily attributable to digital growth via Inclusive Access and direct-to-student e-commerce channel sales, which grew by 43% and 15%, respectively; and
- lower product returns reserve driven by lower print sales attributable to the ongoing shift to digital learning solutions and our rental program introduced in 2018; partially offset by
- a decline in print revenue, driven by the ongoing migration from print to digital learning solutions and limited sales of our 2019 and subsequent copyright titles which were primarily available only through our rental program.

K-12

K-12 revenue for the three months ended December 31, 2020 and 2019 was $109.9 million and $91.5 million respectively, a increase of $18.4 million or 20.1%. The increase was primarily due to:

- higher market share capture in both adoption and open territory markets across our Reading, Math, Science and Humanities portfolio; and
- timing of digital revenue recognition related to prior period sales.

International

International revenue for the three months ended December 31, 2020 and 2019 was $47.4 million and $65.6 million, respectively, a decrease of $18.2 million or 27.8%. The decrease was primarily due to:

- lower print revenue related to COVID-19 driven distribution channel partner disruptions; and
- lower print revenue driven by stronger controls on sales to third parties to prevent product from being resold in the U.S. secondary market; partially offset by
- a $0.6 million favorable foreign exchange rate impact (estimated by re-calculating current period results of foreign operations using the average exchange rate from the prior period); and
- an increase in digital product sales.

Global Professional

Global Professional revenue for the three months ended December 31, 2020 and 2019 was $35.4 million and $44.0 million, respectively, a decrease of $8.6 million or 19.6%. The decrease was primarily due to:

- lower print revenue related to COVID-19 driven distribution channel partner disruptions globally; partially offset by
- the continued increase in digital subscription revenue related to our *Access* platform.

Cost of Sales

Cost of sales for the three months ended December 31, 2020 and 2019 was $69.0 million and $77.3 million, respectively, a decrease of $8.3 million or 10.7%. The decrease was primarily due to lower manufacturing costs from reduced print sales and the ongoing shift to digital learning solutions.

Operating and Administration Expenses

Operating and administration expenses for the three months ended December 31, 2020 and 2019 were $198.2 million and $255.0 million, respectively, a decrease of $56.8 million or 22.3%. Included within operating and administration expense is the amortization of pre-publication expenditures which decreased by $2.0 million or 11.5% driven by the timing of pre-publication expenditures. The remaining variance was primarily due to:

- lower compensation expense due to strategic headcount reductions;
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower promotional samples expense; and
- lower legal cost due to the termination of a previously disclosed proposed merger on May 3rd, 2020.

Depreciation & Amortization of Intangibles

Depreciation and amortization expenses for the three months ended December 31, 2020 and 2019 was $30.1 million and $32.9 million, respectively, a decrease of $2.9 million or 8.7%. The decrease was primarily driven by lower amortization related to our acquired intangible assets which are amortized under accelerated amortization method.

Interest expense, net

Interest expense, net, for the three months ended December 31, 2020 and 2019 was $43.9 million and $42.8 million, respectively, a increase of $1.1 million or 2.5%. The increase was primarily due to a lower interest income on our money market deposits partially offset by the lower applicable LIBOR rate related to the Term Loan Facility in comparison to the prior period.

Refer to Note 4, "Debt," of our consolidated financial statements for further discussion of our debt.

Provision for Taxes on Income

Income tax provision for the three months ended December 31, 2020 and 2019 was $3.5 million and $5.0 million, respectively. For the three months ended December 31, 2020 and 2019, the effective tax rate was 16.4% and (14.1)%, respectively. A valuation allowance has been recorded for net federal and state and certain net foreign deferred tax assets due to the negative evidence of cumulative book losses. For the three months ended December 31, 2020, no deferred income tax provision was recorded against domestic operating income, and no deferred income tax benefit was recognized for certain foreign losses on operations as a result of the valuation allowance. For the three months ended December 31, 2019, no deferred income tax benefit was recognized for the domestic and certain foreign losses on operations as a result of the valuation allowance against these tax benefits.

Adjusted EBITDA by Segment for the Three Months Ended December 31, 2020 and 2019

Adjusted EBITDA by segment, as determined in accordance with Accounting Standards Codification Topic 280, Segment Reporting, is a measure used by management to assess the performance of our segments. We exclude from Adjusted EBITDA by segment: interest expense (income), net, income tax (benefit) provision, depreciation, amortization and pre-publication amortization and certain transactions or adjustments that our management does not consider for the purposes of making decisions to allocate resources among segments or assessing segment performance. In addition, Adjusted EBITDA by segment is calculated in a manner consistent with the definition and meaning of our Adjusted EBITDA non-GAAP debt covenant compliance measure, see “Non-GAAP Measures” - “Debt Covenant Compliance”.

(Dollars in thousands, unless otherwise indicated)

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	$ Change	% Change
Adjusted EBITDA by segment:				
Higher Education	$ 14,036	$ 4,061	$ 9,975	245.6 %
K-12	(28,433)	(58,675)	30,242	(51.5)%
International	1,110	8,708	(7,598)	(87.3)%
Global Professional	17,452	20,207	(2,755)	(13.6)%
Other	(3,600)	2,164	(5,764)	n/m

Higher Education

Adjusted EBITDA for the three months ended December 31, 2020 and 2019 was $14.0 million and $4.1 million, respectively, an increase of $10.0 million or 245.6%. The increase was primarily due to:

- the gross profit impact of the $6.5 million favorable Billings variance discussed under “Non-GAAP Measures-Billings for the Three Months Ended December 31, 2020 and 2019 - Higher Education”;
- a decrease in manufacturing and freight costs during the period as a result of ongoing shift to digital learning solution sales;
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower discretionary spending and compensation driven by strategic headcount reductions; and
- lower pre-publication investment cash costs due to the timing of product investment.

K-12

Adjusted EBITDA for the three months ended December 31, 2020 and 2019 was $(28.4) million and $(58.7) million, respectively, an increase of $30.2 million or 51.5%. The increase was primarily due to:

- the gross profit impact of the $14.1 million favorable Billings variance discussed under “Non-GAAP Measures-Billings for the Three Months Ended December 31, 2020 and 2019 - K-12”;
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower promotional samples expense; and
- lower discretionary spending and compensation driven by strategic headcount reductions; partially offset by
- an increase in manufacturing and freight costs due to higher print sales during the period; and
- an increase in pre-publication investment cash costs due to timing.

International

Adjusted EBITDA for the three months ended December 31, 2020 and 2019 was $1.1 million and $8.7 million, respectively, a decrease of $7.6 million or 87.3%. The decrease was primarily due to:

- the gross profit impact of the $18.4 million unfavorable Billings variance discussed under “Non-GAAP Measures-Billings for the Three Months Ended December 31, 2020 and 2019 - International”; partially offset by
- a $1.8 million favorable foreign exchange rate impact (estimated by re-calculating current period results of foreign operations using the average exchange rate from the prior period).
- lower manufacturing costs during the period as a result of lower print revenue, primarily driven by limited sales of our 2019 and subsequent copyright titles as part of the Higher Education rental program and stronger controls on sales to distributors to prevent product from being resold in the U.S. secondary market;
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower discretionary spending and compensation driven by strategic headcount reductions; and
- a decrease in pre-publication investment cash costs due to the timing.

Global Professional

Adjusted EBITDA for the three months ended December 31, 2020 and 2019 was $17.5 million and $20.2 million, respectively, a decrease of $2.8 million or 13.6%. The decrease was primarily due to:

- the gross profit impact of the $8.3 million unfavorable Billings variance attributable to COVID-19 discussed under “Non-GAAP Measures--Billings for the Three Months Ended December 31, 2020 and 2019 - Professional”; partially offset by
- lower manufacturing costs during the period as a result of lower print sales as well as the ongoing shift to digital sales;
- lower travel & entertainment and utilities expenses due to travel restrictions and office closure resulting from COVID-19;
- lower discretionary spending; and
- a decrease in pre-publication investment cash costs due to the timing.

Consolidated Operating Results

Consolidated Operating Results for the Nine Months Ended December 31, 2020 and 2019

(Dollars in thousands)	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019	$ Change	% Change
Revenue	$ 1,222,841	$ 1,292,435	$ (69,594)	(5.4)%
Cost of sales	268,840	307,466	(38,626)	(12.6)
Gross profit	954,001	984,969	(30,968)	(3.1)
Operating expenses				
Operating and administration expenses	607,793	778,280	(170,487)	(21.9)
Depreciation	43,879	43,798	81	0.2
Amortization of intangibles	45,903	53,220	(7,317)	(13.7)
Total operating expenses	697,575	875,298	(177,723)	(20.3)
Operating (loss) income	256,426	109,671	146,755	133.8
Interest expense (income), net	129,969	135,147	(5,178)	(3.8)
Other (income) expense	—	(7,962)	7,962	n/m
(Loss) income from operations before taxes on income	126,457	(17,514)	143,971	n/m
Income tax provision	8,354	10,767	(2,413)	(22.4)
Net (loss) income	**$ 118,103**	**$ (28,281)**	**$ 146,384**	**n/m**

Revenue

(Dollars in thousands)	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019	$ Change	% Change
Reported Revenue by segment:				
Higher Education	$ 481,076	$ 470,925	$ 10,151	2.2 %
K-12	502,613	522,175	(19,562)	(3.7)
International	133,684	176,815	(43,131)	(24.4)
Global Professional	104,713	121,388	(16,675)	(13.7)
Other	755	1,132	(377)	n/m
Total Reported Revenue	**$ 1,222,841**	**$ 1,292,435**	**$ (69,594)**	**(5.4)%**

Revenue for the nine months ended December 31, 2020 and 2019 was $1,222.8 million and $1,292.4 million, respectively, a decrease of $69.6 million or 5.4%. The variance was driven by the segment factors described below.

Higher Education

Higher Education revenue for the nine months ended December 31, 2020 and 2019 was $481.1 million and $470.9 million, respectively, an increase of $10.2 million or 2.2%. The increase was primarily due to:

- increased revenue primarily attributable to digital growth via Inclusive Access and direct-to-student e-commerce channel sales, which grew by 54% and 30%, respectively; and

- lower product returns reserve which were driven by lower print sales attributable to the ongoing shift to digital learning solutions and our rental program introduced in 2018; partially offset by

- a decline in print revenue, driven by the ongoing migration from print to digital learning solutions and limited sales of our 2019 and subsequent copyright titles which were primarily available only through our rental program.

K-12

K-12 revenue for the nine months ended December 31, 2020 and 2019 was $502.6 million and $522.2 million respectively, a decrease of 19.6 million or 3.7%. The decrease was primarily due to;

- a cyclically smaller adoption market year-over-year, the decision to forgo certain non-core adoptions, and delayed purchasing in multi-year CA adoptions (Science and Social Studies); partially offset by

- higher market share capture in both adoption and open territory markets; and

- timing of digital revenue recognition related to prior period sales.

International

International revenue for the nine months ended December 31, 2020 and 2019 was $133.7 million and $176.8 million, respectively, a decrease of $43.1 million or 24.4%. The decrease was primarily due to:

- lower print revenue related to COVID-19 driven by distribution channel partner disruptions;

- lower print revenue driven by stronger controls on sales to third parties to prevent product from being resold in the U.S. secondary market; and

- a $0.9 million unfavorable foreign exchange rate impact (estimated by re-calculating current period results of foreign operations using the average exchange rate from the prior period); partially offset by

- an increase in digital product sales

Global Professional

Global Professional revenue for the nine months ended December 31, 2020 and 2019 was $104.7 million and $121.4 million, respectively, a decrease of $16.7 million or 13.7%. The decrease was primarily due to;

- lower print revenue related to COVID-19 driven distribution channel partner disruptions globally; partially offset by

- the continued increase in digital subscription revenue related to our *Access* platform offering domestically.

Cost of Sales

Cost of sales for the nine months ended December 31, 2020 and 2019 was $268.8 million and $307.5 million, respectively, a decrease of $38.6 million or 12.6%. The decrease was primarily due to lower manufacturing costs from reduced print sales and the ongoing shift to digital learning solutions.

Operating and Administration Expenses

Operating and administration expenses for the nine months ended December 31, 2020 and 2019 was $607.8 million and $778.3 million, respectively, a decrease of $170.5 million or 21.9%. Included within operating and administration expense is the amortization of pre-publication expenditures which decreased by $36.3 million or 37.3% driven by the timing of pre-publication expenditures. The remaining variance was primarily due to:

- lower compensation expense due to strategic headcount reductions;
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower promotional samples expense;
- lower legal cost due to the termination of a previously disclosed proposed merger on May 3rd, 2020; and
- favorable settlement of the Copyright Actions lawsuit filed in 2016.

Depreciation & Amortization of Intangibles

Depreciation and amortization expenses for the nine months ended December 31, 2020 and 2019 was $89.8 million and $97.0 million, respectively, a decrease of $7.2 million or 7.5%. The decrease was driven by the use of accelerated amortization methods for certain acquired intangible assets.

Interest expense, net

Interest expense, net, for the nine months ended December 31, 2020 and 2019 was $130.0 million and $135.1 million, respectively, a decrease of $5.2 million or 3.8%. The decrease was primarily due to a lower applicable LIBOR rate related to the Term Loan Facility in comparison to the prior period due to lower market interest rates.

Refer to Note 4, "Debt," of our consolidated financial statements for further discussion of our debt.

Provision for Taxes on Income

Income tax provision for the nine months ended December 31, 2020 and 2019 was $8.4 million and $10.8 million, respectively. For the nine months ended December 31, 2020 and 2019, the effective tax rate was 6.6% and (61.5)%, respectively. A valuation allowance has been recorded for net federal, state and certain foreign deferred tax assets due to the negative evidence of cumulative book losses. For the nine months ended December 31, 2020, no deferred income tax provision was recorded against domestic operating income, and no deferred income tax benefit was recognized for certain foreign losses on operations as a result of the valuation allowance. For the nine months ended December 31, 2019, no deferred income tax benefit was recognized for the domestic and certain foreign losses on operations as a result of the valuation allowance against these tax benefits.

Adjusted EBITDA by Segment for the Nine Months Ended December 31, 2020 and 2019

Adjusted EBITDA by segment, as determined in accordance with Accounting Standards Codification Topic 280, Segment Reporting, is a measure used by management to assess the performance of our segments. We exclude from Adjusted EBITDA by segment: interest expense (income), net, income tax (benefit) provision, depreciation, amortization and pre-publication amortization and certain transactions or adjustments that our management does not consider for the purposes of making decisions to allocate resources among segments or assessing segment performance. In addition, Adjusted EBITDA by segment is calculated in a manner consistent with the definition and meaning of our Adjusted EBITDA non-GAAP debt covenant compliance measure, see “Non-GAAP Measures” - “Debt Covenant Compliance”.

(Dollars in thousands)	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019	$ Change	% Change
Adjusted EBITDA by segment:				
Higher Education	$ 195,809	$ 151,727	$ 44,082	29.1 %
K-12	177,865	190,468	(12,603)	(6.6)
International	17,284	18,633	(1,349)	(7.2)
Global Professional	35,924	43,538	(7,614)	(17.5)
Other	13,016	7,047	5,969	84.7

Higher Education

Adjusted EBITDA for the nine months ended December 31, 2020 and 2019 was $195.8 million and $151.7 million, respectively, an increase of $44.1 million or 29.1%. The increase was primarily due to:

- the gross profit impact of the $12.0 million favorable Billings variance discussed under "Non-GAAP Measures-Billings for the Nine Months Ended December 31, 2020 and 2019 - Higher Education";
- a decrease in manufacturing and freight costs during the period as a result of ongoing shift to digital learning solution sales;
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower discretionary spending and compensation driven by strategic headcount reductions; and
- lower pre-publication investment cash costs due to the timing of product investment.

K-12

Adjusted EBITDA for the nine months ended December 31, 2020 and 2019 was $177.9 million and $190 million, respectively, a decrease of $12.6 million or 6.6% . The decrease was primarily due to:

- the gross profit impact of the $75.1 million unfavorable Billings variance discussed under "Non-GAAP Measures-Billings for the Nine Months Ended December 31, 2020 and 2019 - K-12"; partially offset by
- a decrease in pre-publication investment cash costs due to timing;
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;
- lower promotional samples expense; and
- lower discretionary spending and compensation driven by strategic headcount reductions.

International

Adjusted EBITDA for the nine months ended December 31, 2020 and 2019 was $17.3 million and $18.6 million, respectively, a decrease of $1.3 million or 7.2% . The decrease was primarily due to:

- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19;

- lower discretionary spending and compensation driven by strategic headcount reductions;
- improvement in margins resulting from continuous shift towards digital products sale; and
- a $3.6 million favorable foreign exchange rate impact (estimated by re-calculating current period results of foreign operations using the average exchange rate from the prior period); partially offset by
- the gross profit impact of the $38.9 million unfavorable Billings variance discussed under "Non-GAAP Measures- Billings for the Nine Months Ended December 31, 2020 and 2019 - International".

Global Professional

Adjusted EBITDA for the nine months ended December 31, 2020 and 2019 was $35.9 million and $43.5 million, respectively, a decrease of $7.6 million or 17.5%. The decrease was primarily due to;

- the gross profit impact of the $18.6 million unfavorable Billings variance discussed under "Non-GAAP Measures-Billings for the Nine Months Ended December 31, 2020 and 2019 - Professional"; partially offset by
- lower travel & entertainment and utilities expense due to travel restrictions and office closures related to COVID-19; and
- lower discretionary spending.

Other

Adjusted EBITDA for the nine months ended December 31, 2020 and 2019 was $13.0 million and $7.0 million, respectively, an increase of $6.0 million or 84.7%. The increase was driven by favorable foreign exchange movements, favorable timing related allocation adjustments and the favorable settlement of the Copyright Actions lawsuit filed in 2016.

Non-GAAP Measures

Billings, EBITDA and Adjusted EBITDA

The SEC has adopted rules to regulate the use in filings with the SEC and in public disclosures of "non-GAAP financial measures," such as Billings, EBITDA and Adjusted EBITDA. These measures are derived on the basis of methodologies other than in accordance with U.S. GAAP.

Billings is a non-GAAP performance measure that provides useful information in evaluating our period-to-period performance because it reflects the total amount of revenue that would have been recognized in a period if we recognized all print and digital revenue at the time of sale. We use Billings as a performance measure given that we typically collect full payment for our digital and print solutions at the time of sale or shortly thereafter, but recognize revenue from digital solutions and multi-year deliverables ratably over the term of our customer contracts. As sales of our digital learning solutions have increased, so has the amount of revenue that is deferred in accordance with U.S. GAAP. Billings is a key metric we use to manage our business as it reflects the sales activity in a given period, provides comparability from period-to-period during this time of digital transition and is the basis for all sales incentive compensation. In the K-12 market where customers typically pay for five to eight year contracts upfront and the ongoing costs to service any contractual obligation are limited, the impact of the change in deferred revenue is most significant. Billings is U.S. GAAP revenue plus the net change in deferred revenue.

EBITDA, a measure used by management to assess operating performance, is defined as net (loss) income plus net interest, income taxes, depreciation and amortization (including amortization of pre-publication investment cash costs). Adjusted EBITDA is a non-GAAP debt covenant compliance measure that is defined in accordance with our debt agreements. Adjusted EBITDA is a material term in our debt agreements and provides an understanding of our debt covenant compliance, ability to service our indebtedness and make capital allocation decisions in accordance with our debt agreements.

Each of the above described measures is not a recognized term under U.S. GAAP and does not purport to be an alternative to revenue, net (loss) income, or any other measure derived in accordance with U.S. GAAP as a measure of operating performance, debt covenant compliance or to cash flows from operations as a measure of liquidity. Additionally, each such measure is not intended to be a measure of free cash flows available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Such measures have limitations as analytical tools, and you should not consider any of such measures in isolation or as substitutes for our results as reported under U.S. GAAP. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement U.S. GAAP results to provide a more complete understanding of the factors and trends affecting the business than U.S. GAAP results alone. Because not all companies use identical calculations, our measures may not be comparable to other similarly titled measures of other companies.

Management believes Adjusted EBITDA is helpful in highlighting trends because Adjusted EBITDA excludes the results of certain transactions or adjustments that are non-recurring or non-operational and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax rules in the jurisdictions in which companies operate, and capital investments.

Management believes that the presentation of Adjusted EBITDA, which is defined in accordance with our debt agreements, is appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future as well as other items to assess our debt covenant compliance, ability to service our indebtedness and make capital allocation decisions in accordance with our debt agreements.

Billings for the Three Months Ended December 31, 2020 and 2019

(Dollars in thousands)	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	$ Change	% Change
Reported Revenue by segment:				
Higher Education	$ 168,208	$ 162,809	$ 5,399	3.3 %
K-12	109,888	91,524	18,364	20.1 %
International	47,401	65,624	(18,223)	(27.8)%
Global Professional	35,396	44,008	(8,612)	(19.6)%
Other	1,609	879	730	83.0 %
Total Reported Revenue	**$ 362,502**	**$ 364,844**	**$ (2,342)**	**(0.6)%**
Change in deferred revenue	(114,294)	(97,066)	(17,228)	17.7 %
Billings	**$ 248,208**	**$ 267,778**	**$ (19,570)**	**(7.3)%**
Billings by Segment:				
Higher Education	$ 104,353	$ 110,828	$ (6,475)	(5.8)%
K-12	57,453	43,312	14,141	32.6 %
International	41,308	59,738	(18,430)	(30.9)%
Global Professional	44,651	52,974	(8,323)	(15.7)%
Other	443	926	(483)	(52.2)%
Total Billings	**$ 248,208**	**$ 267,778**	**$ (19,570)**	**(7.3)%**

Billings for the three months ended December 31, 2020 and 2019 was $248.2 million and $267.8 million, respectively, a decrease of $19.6 million or 7.3%.

These variances were driven by the segment factors described below.

Higher Education

Billings for the three months ended December 31, 2020 and 2019 was $104.4 million and $110.8 million, respectively, a decrease of $6.5 million or 5.8%. The decrease was primarily due to:

- timing of digital sales as Inclusive Access and direct-to-student e-commerce channel sales shift closer to the semester start date; partially offset by
- a decline in print revenue driven, in part, by the ongoing transition from print to digital learning solutions which has been accelerated by COVID-19 and limited sales of our 2019 and subsequent copyright titles which were primarily available only through our rental program; and
- lower product returns reserve driven by the ongoing shift to digital learning solutions and our rental program introduced in 2018.

K-12

Billings for the three months ended December 31, 2020 and 2019 was $57.5 million and $43.3 million, respectively, an increase of $14.1 million or 32.6%. The increase was primarily due to:

- a cyclically smaller adoption market year-over-year, the decision to forgo certain non-core adoptions, and delayed purchasing in multi-year CA adoptions (Science and Social Studies); partially offset by

- higher market share capture in both adoption and open territory markets;; and
- increased sales in the quarter as a result of COVID-19 driven market disruption in the prior quarter.

International

Billings for the three months ended December 31, 2020 and 2019 was $41.3 million and $59.7 million, respectively, a decrease of $18.4 million or 30.9%. The decrease was primarily due to:

- lower print revenue related to COVID-19 driven distribution channel partner disruptions;
- lower print revenue driven by stronger controls on sales to third parties to prevent product from being resold in the U.S. secondary market; partially offset by
- a $2.0 million favorable foreign exchange rate impact (estimated by re-calculating current period results of foreign operations using the average exchange rate from the prior period); and
- an increase in digital product sales impacted by COVID-19 and the need for online/remote learning.

Global Professional

Billings for the three months ended December 31, 2020 and 2019 was $44.7 million and $53.0 million, respectively, a decrease of $8.3 million or 15.7%. The decrease was primarily due to;

- lower print revenue related to COVID-19 driven distribution channel partner disruptions globally; partially offset by
- the continued increase in digital subscription revenue related to our *Access* platform offering domestically.

Billings for the Nine Months Ended December 31, 2020 and 2019

(Dollars in thousands)	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019	$ Change	% Change
Reported Revenue by segment:				
Higher Education	$ 481,076	$ 470,925	$ 10,151	2.2 %
K-12	502,613	522,175	(19,562)	(3.7)
International	133,684	176,815	(43,131)	(24.4)
Global Professional	104,713	121,388	(16,675)	(13.7)
Other	755	1,132	(377)	(33.3)
Total Reported Revenue	**$ 1,222,841**	**$ 1,292,435**	**$ (69,594)**	**(5.4)%**
Change in deferred revenue	76,392	128,309	(51,917)	(40.5)
Billings	**$ 1,299,233**	**$ 1,420,744**	**$ (121,511)**	**(8.6)%**
Billings by Segment:				
Higher Education	$ 501,353	$ 489,320	$ 12,033	2.5 %
K-12	541,123	616,181	(75,058)	(12.2)
International	142,319	181,262	(38,943)	(21.5)
Global Professional	113,704	132,295	(18,591)	(14.1)
Other	734	1,686	(952)	(56.5)
Total Billings	**$ 1,299,233**	**$ 1,420,744**	**$ (121,511)**	**(8.6)%**

Billings for the nine months ended December 31, 2020 and 2019 was $1,299.2 million and $1,420.7 million, respectively, a decrease of $121.5 million or 8.6%.

These variances were driven by the segment factors described below.

Higher Education

Billings for the nine months ended December 31, 2020 and 2019 was $501.4 million and $489.3 million, respectively, an increase of $12.0 million or 2.5%. The increase was primarily due to:

- increased revenue primarily attributable to digital growth via Inclusive Access and direct-to-student e-commerce channel sales, which grew by 54% and 30%, respectively; and
- lower product returns reserve driven by lower print sales attributable to the ongoing shift to digital learning solutions and our rental program introduced in 2018; partially offset by
- a decline in print revenue, driven by the ongoing migration from print to digital learning solutions and limited sales of our 2019 and subsequent copyright titles which were primarily available only through our rental program.

K-12

Billings for the nine months ended December 31, 2020 and 2019 was $541.1 million and $616.2 million, respectively, a decrease of $75.1 million or 12.2%. The decrease was primarily due to;

- a cyclically smaller adoption market year-over-year, the decision to forgo certain non-core adoptions, and delayed purchasing in multi-year CA adoptions (Science and Social Studies); partially offset by
- higher market share capture in both adoption and open territory markets across our Reading, Math, Science and Humanities portfolio.

International

Billings for the nine months ended December 31, 2020 and 2019 was $142.3 million and $181.3 million, respectively, a decrease of $38.9 million or 21.5%. The decrease was primarily due to:

- lower print revenue related to COVID-19 driven distribution channel partner disruptions;
- lower print revenue driven by stronger controls on sales to third parties to prevent product from being resold in the U.S. secondary market; and
- a $2.1 million unfavorable foreign exchange rate impact (estimated by re-calculating current period results of foreign operations using the average exchange rate from the prior period); partially offset by
- an increase in digital product sales.

Global Professional

Billings for the nine months ended December 31, 2020 and 2019 was $113.7 million and $132.3 million, respectively, a decrease of $18.6 million or 14.1%. The decrease was primarily due to;

- lower print revenue related to COVID-19 driven distribution channel partner disruptions globally; partially offset by
- the continued increase in digital subscription revenue related to our *Access* platform offering domestically.

Debt Covenant Compliance

Adjusted EBITDA is an important measure because, under our debt agreements, our ability to incur additional indebtedness or issue certain preferred shares, make certain types of acquisitions or investments, operate our business and pay dividends, conduct asset sales or dispose of all or substantially all of our assets, all of which will impact our financial performance, is impacted by our Adjusted EBITDA, as our lenders measure our performance with a net first lien leverage ratio by comparing our senior secured bank indebtedness to our Adjusted EBITDA and a fixed charge coverage ratio, and several of our debt, investment and restricted payment baskets are measured using Adjusted EBITDA.

The Senior Facilities and the indentures governing the MHGE Parent Term Loan and the MHGE Senior Notes contain, among other provisions, certain customary covenants regarding indebtedness, payments and distributions, mergers and acquisitions, asset sales and affiliate transactions. Capacity for investments, debt, distributions and certain prepayments is measured in many instances by a multiple of Adjusted EBITDA. Our revolving credit facility requires that MHGE Holdings, after an initial grace period and subject to a testing threshold, comply on a quarterly basis with a maximum net first lien senior secured leverage ratio (the ratio of consolidated net debt secured by first-priority liens on the collateral to Adjusted EBITDA, as defined in the credit agreement governing the Senior Facilities) of (a) with respect to the second, third and fourth fiscal quarters of any year, 4.80 to 1.00 and (b) with respect to the first quarter of any fiscal year, 5.25 to 1.00. The testing threshold is satisfied at any time at which the sum of outstanding revolving credit facility loans, swingline loans and certain letters of credit exceeds thirty percent (30%) of commitments under the revolving credit facility at quarter end. Payment of borrowings under the debt agreements may be accelerated if there is an event of default. Events of default include the failure to pay principal and interest when due, a material breach of a representation or warranty, certain non-payments or defaults under other indebtedness, covenant defaults, events of bankruptcy and a change of control. Our historical debt agreements, including the MHGE Facilities, the MHSE Revolving Facility and the MHSE Term Loan, contained similar covenants predicated on the same Adjusted EBITDA measure. Failure to comply with these covenants, which are based, in part, upon Adjusted EBITDA could limit our long-term growth prospects by hindering our ability to incur future debt or make acquisitions.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in thousands, unless otherwise indicated)

"Adjusted EBITDA" as defined in our Senior Facilities debt agreements, is net income, adjusted for the items summarized in the table below. Adjusted EBITDA is intended to show our unleveraged, pre-tax operating results and therefore reflects our financial performance based on operational factors, excluding non-operational or non-recurring losses or gains. Adjusted EBITDA is not a presentation made in accordance with U.S. GAAP, and our use of the term Adjusted EBITDA varies from others in our industry. This measure should not be considered as an alternative to net (loss) income or any other performance measures derived in accordance with U.S. GAAP. Adjusted EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. For example, Adjusted EBITDA does not reflect: (a) our cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future; (b) changes in, or cash requirements for, our working capital needs; (c) the significant interest expenses, or the cash requirements necessary to service interest or principal payments, on our debt; (d) tax payments that may represent a reduction in cash available to us; (e) management fees paid to entities and investment funds affiliated with Apollo Global Management, LLC; (f) one-time expenditures to realize the synergies referred to above; or (g) the impact of earnings or charges resulting from matters that we and the lenders under our debt agreements may not consider indicative of our ongoing operations. In particular, our definition of Adjusted EBITDA allows us to add back certain non-cash and other charges or costs that are deducted in calculating net (loss) income. However, these are expenses that may recur, vary greatly and are difficult to predict. They can represent the effect of long-term strategies as opposed to short-term results. In addition, certain of these expenses can represent the reduction of cash that could be used for other corporate purposes.

Further, although not included in the calculation of Adjusted EBITDA below, the measure may at times allow us to add estimated cost savings and operating synergies related to operational changes ranging from acquisitions or dispositions to restructurings, and/or exclude one-time transition expenditures that we anticipate we will need to incur to realize cost savings before such savings have occurred.

The calculation of Adjusted EBITDA in accordance with our debt agreements is presented in the table below. The results of such calculation could differ in the future based on the different types of adjustments that may be included in such respective calculations at the time.

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019	Year Ended March 31, 2020	LTM December 31, 2020
Net (loss) income	$ 17,894	$ (40,196)	$ 118,103	$ (28,281)	$ (135,305)	$ 11,079
Interest (income) expense, net	43,898	42,832	129,969	135,147	188,097	182,919
Income tax provision	3,513	4,974	8,354	10,767	11,529	9,116
Depreciation, amortization and pre-publication investment amortization	45,592	50,409	150,937	174,597	230,855	207,195
EBITDA	**$ 110,897**	**$ 58,019**	**$ 407,363**	**$ 292,230**	**$ 295,176**	**$ 410,309**
Change in deferred revenue (a)	(114,294)	(97,066)	76,392	128,309	77,389	25,472
Change in deferred royalties (b)	11,754	8,467	(22,091)	(20,207)	(17,374)	(19,258)
Change in deferred commissions (c)	1,400	1,780	(976)	(1,956)	54	1,034
Restructuring and cost savings implementation charges (d)	6,919	13,496	19,034	21,606	21,606	19,034
Sponsor fees (e)	875	875	2,625	2,625	3,500	3,500
Transaction costs (f)	—	4,804	4,470	20,714	32,105	15,861
Other (g)	810	8,842	5,756	26,461	34,628	13,923
Pre-publication investment (h)	(17,796)	(22,752)	(52,675)	(58,369)	(74,183)	(68,489)
Adjusted EBITDA	**$ 565**	**$ (23,535)**	**$ 439,898**	**$ 411,413**	**$ 372,901**	**$ 401,386**

(a) We receive cash up-front for most sales but recognize revenue (primarily related to digital sales) over time recording a liability for deferred revenue at the time of sale. This adjustment represents the net effect of converting deferred revenues to a cash basis assuming the collection of all receivable balances.

(b) Royalty obligations are generally payable in the period incurred with limited recourse. This adjustment represents the net effect of converting deferred royalties to a cash basis assuming the payment of all amounts owed in the period incurred.

(c) Commissions are generally payable in the period incurred. This adjustment represents the net effect of converting deferred commissions to a cash basis assuming the payment of all amounts owed in the period incurred.

(d) Represents severance and other expenses incurred in connection with headcount reductions and other expense reduction efforts initiated as part of our formal restructuring initiatives to create a flatter and more agile organization.

(e) Represents $3.5 million of annual management fees payable to Apollo.

(f) The amount represents the transaction costs associated with the Merger Agreement entered between the Company and Cengage on May 1, 2019 and terminated on May 3rd, 2020.

(g) For the twelve months ended December 31, 2020, the amount represents (i) non-cash incentive compensation expense of $6.0 million, (ii) International trademark impairment of $3.0 million, (iii) change in deferred real estate and lease incentives of $1.0 million primarily related to the Company move to the new headquarters at 1325 Ave of Americas, and (iv) other adjustments required or permitted in calculating covenant compliance under our debt agreements.

For the year ended March 31, 2020, the amount represents (i) non-cash incentive compensation expense of $13.0 million, (ii) International trademark impairment of $3.0 million, (iii) change in deferred real estate and lease incentives of $8.0 million primarily related to the Company move to the new headquarters at 1325 Ave of Americas, and (iv) other adjustments required or permitted in calculating covenant compliance under our debt agreements.

For the three and nine months ended December 31, 2020, the amount represents (i) non-cash incentive compensation expense of $1.5 million and $4.0 million, respectively, (ii) change in deferred real estate and lease incentives of $(0.5) million and $(0.3) million, respectively, and (iii) other adjustments required or permitted in calculating covenant compliance under our debt agreements.

For the three and nine months ended December 31, 2019, the amount represents (i) non-cash incentive compensation expense of $4.3 million and $11.0 million, respectively, (ii) change in deferred real estate and lease incentives of $2.1 million and $6.4 million, respectively, primarily related to the Company move to the new headquarters at 1325 Ave of Americas, and (iii) other adjustments required or permitted in calculating covenant compliance under our debt agreements.

(h) Represents the cash cost for pre-publication investment during the period.

In addition, the Senior Facilities credit agreement, the indentures governing the MHGE Senior Notes and the MHGE Parent Term Loan, contain a financial covenant that requires the disclosure of a description of the quantitative differences from the parent, McGraw Hill Education Inc., (“MHE”) to MHGE and its subsidiaries (for the Senior Facilities and MHGE Senior Notes) and from MHE to MHGE Parent, LLC (“MHGE Parent”) and its subsidiaries (for the MHGE Parent Term Loan).

As of December 31, 2020, the material quantitative differences from MHE to MHGE and its subsidiaries relate to $1.1 million of cash, and cash equivalents, of which $0.6 million was held by MHGE Parent and $0.5 million was held by MHE. There were no other material assets or liabilities other than the $188.1 million of MHGE Parent Term Loan due in 2022 and its related accrued interest of $4.4 million.

As of December 31, 2020, the material quantitative differences from MHE to MHGE Parent and its subsidiaries relate to $0.5 million of cash and cash equivalents held by MHE. There were no other material assets or liabilities.

Furthermore, MHE and MHGE Parent do not generate revenue or conduct, transact or engage in any material business or operations other than their direct or indirect ownership of the equity interests in MHGE.

Subsequent Events

Senior Facilities

On January 6, 2021, the Company completed the amendment to its existing first lien credit agreement (the “Existing Credit Agreement” and, together with the New Credit Agreement, the “Credit Facilities”) to (i) modify certain provisions of the Existing Credit Agreement and related loan documents, (ii) following such modification, to extend the maturity of the term loans under the Existing Credit Agreement (the “Existing First Lien Term Loans”) and to exchange such Existing First Lien Term Loans for new term loans (the “Extended Term Loans”) under a new first lien credit agreement (the “New Credit Agreement”) and (iii) extend the maturity date of existing revolving facility commitments (the “Existing Revolving Facility Commitments”) established under the New Credit Agreement (collectively, the “Extension Transaction”).

The Company received consents to the Extension Transactions from holders of approximately $1,560,000 (or approximately 98%) of the Existing First Lien Term Loans and holders of approximately $325,000 (or approximately 93%) of the Existing Revolving Facility Commitments. On the Closing Date, the Company voluntarily repaid approximately $196,000 of the Extended Term Loans held by the extending term lenders and voluntarily terminated approximately $65,000 of the Extended Revolving Facility Commitments of the extending revolving lenders. After giving effect to the repayments and commitment terminations, there are approximately $1,370,000 of Extended Term Loans and approximately $260,000 of Extended Revolving Facility Commitments outstanding under the New Credit Agreement. In addition, there are approximately $27,000 of Existing First Lien Term Loans and approximately $25,000 of Existing Revolving Facility Commitments outstanding under the Existing Credit Agreement. The obligations under the New Credit Agreement are fully and unconditionally guaranteed, jointly and severally, by MHGE Intermediate Holdings and by the Company’s present and future direct or indirect wholly owned material domestic subsidiaries.

The Extended Term Loans bear interest at a rate equal to LIBOR (subject to a 1.00% per annum floor) plus 4.75% per annum and will mature on November 1, 2024.

Loans under the Extended Revolving Facility Commitments bear interest at a rate equal to LIBOR plus a margin of 4.25-4.75% per annum depending on the net first lien leverage ratio, with the initial margin being 4.75% per annum. The Extended Revolving Facility Commitments will terminate on November 1, 2023.

The New Credit Agreements contains customary financial covenants and events of default under which the obligations thereunder could be accelerated.

Refinancing Transactions

Concurrent with the closing of the Extension Transaction described above, the Company completed the issuance of $686,695 of new 8% junior-priority senior secured notes due November 2024 (the “New Senior Secured Notes”), consisting of (i) $329,503 aggregate principal amount of the New Senior Secured Notes issued for cash; (ii) $346,111 aggregate principal amount of the New Senior Secured Notes issued in exchange for the Company’s 7.875% MHGE Senior Notes due 2024 (the “Unsecured Notes”); and (iii) $11,081 aggregate principal amount of the New Senior Secured Notes issued in exchange for MHGE Parent Term Loan under MHGE Parent, LLC’s term loan agreement.

The Company, in its sole discretion, had the option to repay all or a portion of the MHGE Parent Term Loan in cash. The Company elected to repay $179,494 aggregate principal amount of the MHGE Parent Term Loan using $50,000 cash on balance sheet and cash proceeds from the New Senior Secured Notes. The issuance and sale of the New Senior Secured Notes, the exchange of the Unsecured Notes, the exchange and repayment of the MHGE Parent Term Loan and the payment of related fees and expenses are referred to as the “Refinancing Transactions”. After giving effect to the Refinancing Transactions, $53,889 aggregate principal amount of the Unsecured Notes remain outstanding.

The Issuers’ obligations under the New Senior Secured Notes are fully and unconditionally guaranteed, jointly and severally, by the Company’s present and future direct or indirect wholly owned material domestic subsidiaries that guarantee each of the Credit Facilities. The New Senior Secured Notes will be secured by junior-priority security interests in, subject to permitted liens and certain exceptions, substantially all of the existing and future assets of the Issuers and the subsidiary guarantors that also secure the obligations under the New Credit Agreement, and will be effectively junior to the obligations under the obligations under the New Credit Agreement to the extent of the value of the collateral.

In connection with the refinancing transactions described above, the Company estimated debt issuance costs from the lenders and third-parties of approximately $18,000.

Seasonality and Comparability

Our revenues, operating profit and operating cash flows are affected by the inherent seasonality of the academic calendar. In 2020 we realized approximately 24%, 34%, 23% and 19% of our revenues during the first, second, third and fourth quarters, respectively. This seasonality affects operating cash flow from quarter to quarter and there are certain months when we operate at a net cash deficit. Changes in our customers’ ordering patterns may affect the comparison of our results in a quarter with the same quarter of the previous year or in a fiscal year with the prior fiscal year, where our customers may shift the timing of material orders for any number of reasons, including, but not limited to, changes in academic semester start dates or changes to their inventory management practices.

Quarterly Results of Operations

	March 31, 2019	March 31, 2020				March 31, 2021		
(Dollars in thousands)	**Fourth Quarter 2019**	**First Quarter 2020**	**Second Quarter 2020**	**Third Quarter 2020**	**Fourth Quarter 2020**	**First Quarter 2021**	**Second Quarter 2021**	**Third Quarter 2021**
Reported revenue by segment:								
Higher Education	$ 138,805	$ 119,089	$ 189,027	$ 162,809	$ 158,438	$ 129,010	$ 183,858	$ 168,208
K-12	68,069	178,255	252,396	91,524	71,854	145,276	247,447	109,888
International	35,511	52,068	59,122	65,625	26,006	33,404	52,880	47,401
Global Professional	34,211	37,615	39,766	44,007	35,311	31,753	37,565	35,396
Other	2,357	(2,053)	2,306	879	710	(2,352)	1,498	1,609
Total Reported Revenue	**$ 278,953**	**$ 384,974**	**$ 542,617**	**$ 364,844**	**$ 292,319**	**$ 337,091**	**$ 523,248**	**$ 362,502**
Change in deferred revenue	(36,640)	8,568	216,807	(97,067)	(50,920)	(29,960)	220,645	(114,294)
Billings	**$ 242,313**	**$ 393,542**	**$ 759,424**	**$ 267,777**	**$ 241,399**	**$ 307,131**	**$ 743,893**	**$ 248,208**
Billings by segment:								
Higher Education	$ 151,996	$ 83,689	$ 294,803	$ 110,828	$ 172,504	$ 77,036	$ 319,964	$ 104,353
K-12	31,301	222,457	350,412	43,312	23,026	166,166	317,504	57,453
International	31,931	47,776	73,749	59,738	19,215	29,812	71,200	41,308
Global Professional	26,889	39,187	40,133	52,974	26,648	34,092	34,961	44,651
Other	196	433	327	925	6	25	264	443
Total Billings	**$ 242,313**	**$ 393,542**	**$ 759,424**	**$ 267,777**	**$ 241,399**	**$ 307,131**	**$ 743,893**	**$ 248,208**

	March 31, 2019	March 31, 2020				March 31, 2021		
(Dollars in thousands)	**Fourth Quarter 2019**	**First Quarter 2020**	**Second Quarter 2020**	**Third Quarter 2020**	**Fourth Quarter 2020**	**First Quarter 2021**	**Second Quarter 2021**	**Third Quarter 2021**
Adjusted EBITDA by segment:								
Higher Education	$ 31,525	$ (16,885)	$ 164,551	$ 4,061	$ 56,303	$ (10,975)	$ 192,748	$ 14,036
K-12	(79,943)	71,964	177,179	(58,675)	(68,732)	45,822	$ 160,476	$ (28,433)
International	(12,404)	(4,767)	14,693	8,708	(21,490)	(6,362)	$ 22,536	$ 1,110
Global Professional	847	11,125	12,205	20,207	(436)	8,929	$ 9,543	$ 17,452
Other	3,600	1,837	3,046	2,164	(4,151)	15,697	919	(3,600)

Indebtedness and Liquidity

	As of	
(Dollars in thousands)	**December 31, 2020**	**March 31, 2020**
Cash, cash equivalents and restricted cash	$ 487,907	$ 186,934
Current portion of long-term debt	17,269	17,269
Long-term debt	2,153,499	2,141,354

Historically, we have generated operating cash flows sufficient to fund our seasonal working capital, capital requirements, expenditure and financing requirements. We use our cash generated from operating activities for a variety of needs, including among others: working capital requirements, pre-publication investment cash costs, capital expenditures and strategic acquisitions.

Our operating cash flows are affected by the inherent seasonality of the academic calendar. This seasonality also impacts cash flow patterns as investments are typically made in the first half of the calendar year to support the significant selling period that occurs in the second half of the calendar year. As a result, our cash flow is typically lower in first and fourth quarter of the fiscal year and higher in the second and third quarter of the fiscal year.

Going forward, we may need cash to fund operating activities, working capital, pre-publication investment cash costs, capital expenditures and strategic investments. Our ability to fund our capital needs will depend on our ongoing ability to generate cash from operations and our access to the bank and capital markets. We believe that our future cash flow from operations, together with our access to funds on hand and capital markets, will provide adequate resources to fund our operating and financing needs for at least the next twelve months. We also expect our working capital requirements to be positively impacted by our migration from print products to digital learning solutions.

If our cash flows from operations are less than we require, we may need to incur debt or issue equity. From time to time we may need to access the long-term and short-term capital markets to obtain financing. Although we believe we can currently finance our operations on acceptable terms and conditions, our access to, and the availability of, financing on acceptable terms and conditions in the future will be affected by many factors, including: (i) our credit ratings, (ii) the liquidity of the overall capital markets and (iii) the current state of the economy. There can be no assurance that we will continue to have access to the capital markets on terms acceptable to us.

Cash, cash equivalents and restricted cash

Cash and cash equivalents include bank deposits and highly liquid investments with original maturities of three months or less that consist primarily of interest bearing demand deposits with daily liquidity, money market and time deposits. The balance also includes cash that is held by the Company outside the United States to fund international operations or to be reinvested outside of the United States. The investments and bank deposits are stated at cost, which approximates market value. These investments are not subject to significant market risk.

MHGE Senior Notes

On May 4, 2016, the Company issued $400.0 million aggregate principal amount of the 7.875% Senior Notes due 2024, ("MHGE Senior Notes") in a private placement. The MHGE Senior Notes mature on May 15, 2024 and bear interest at a rate of 7.875% per annum, payable semi-annually in arrears on May 15 and November 15 of each year, and commenced on November 15, 2016.

As of December 31, 2020, the unamortized debt discount and deferred financing costs was $27.1 million and $12.3 million, respectively, which are amortized over the term of the MHGE Senior Notes using the effective interest method.

The Company may redeem the MHGE Senior Notes at their option, in whole or in part, at any time on or after May 15, 2019, at certain redemption prices.

The MHGE Senior Notes are fully and unconditionally guaranteed by each of McGraw-Hill Global Education Intermediate Holdings, LLC ("MHGE Holdings") domestic restricted subsidiaries that guarantee the Senior Facilities.

The MHGE Senior Notes contain certain customary negative covenants and events of default. The negative covenants limit MHGE Holdings and its restricted subsidiaries' ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loans, acquisitions or investments, materially change its business, engage in transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries, restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of MHGE Holdings' assets.

The fair value of the MHGE Senior Notes was approximately $366.0 million and $280.0 million as of December 31, 2020 and March 31, 2020, respectively. The Company estimates the fair value of its MHGE Senior Notes based on trades in the market. Since the MHGE Senior Notes do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of December 31, 2020, the remaining contractual life of the MHGE Senior Notes is approximately 3.41 years.

Senior Facilities

On May 4, 2016, the Company entered into the Senior Facilities. The Senior Facilities provide for senior secured financing of up to $1,925.0 million, consisting of:

- Term Loan Facility in an aggregate principal amount of $1,575.0 million with a maturity of 6 years; and

- a senior secured revolving credit facility in an aggregate principal amount of up to $350.0 million with a maturity of 5 years (the "Revolving Credit Facility"), including both a letter of credit sub-facility and a swingline loan sub-facility.

On December 15, 2017, the Company completed an incremental aggregate principal amount of $150.0 million under the existing Term Loan Facility. The incremental Term Loan Facility was issued at a 0.25% discount and will mature concurrently with the existing Term Loan Facility.

Borrowings under the Senior Facilities bear interest at a rate equal to a LIBOR or Prime rate plus an applicable margin, subject to a 1.00% floor in the case of the Term Loan Facility. As of December 31, 2020, the interest rate for the Term Loan Facility was 5.0%. In addition, the Term Loan Facility was issued at a discount of 0.5%. As of December 31, 2020, the unamortized debt discount and deferred financing costs was $5.1 million and $7.4 million, respectively, which are amortized over the term of the facility using the effective interest method.

As of December 31, 2020, the amount available under the Revolving Facility was $350.0 million (excluding outstanding letters of credit of $4.3 million). In addition, we are required to pay a commitment fee of 0.50% per annum to the lenders under the Revolving Facility in respect of the unutilized commitments thereunder.

The Senior Facilities require scheduled quarterly principal payments on the term loans in amounts equal to 0.25% of the original principal amount of the term loans commencing with the end of the first full fiscal quarter ending after the closing date, with the balance payable at maturity. The Term Loan Facility also includes customary mandatory prepayment requirements based on certain events such as asset sales, debt issuances and defined levels of excess cash flow. As of December 31, 2020, the Company determined that no mandatory prepayment of indebtedness is required.

All obligations under the Senior Facilities are unconditionally guaranteed by each of MHGE Holdings' existing and future direct and indirect material, wholly owned domestic subsidiaries. The obligations are secured by substantially all of MHGE Holdings' assets and those of each subsidiary guarantor, capital stock of the subsidiary guarantors and 65% of the voting capital stock of the first-tier foreign subsidiaries that are not subsidiary guarantors, in each case subject to exceptions. Such security interests consist of a first priority lien with respect to the collateral.

Our Revolving Facility includes a springing covenant that requires MHGE Holdings, subject to a testing threshold, comply on a quarterly basis with a maximum net first lien senior secured leverage ratio (the ratio of consolidated net debt secured by first-priority liens on the collateral to Adjusted EBITDA) of (a) with respect to the second, third and fourth fiscal quarters of any year, 4.80 to 1.00 and (b) with respect to the first quarter of any fiscal year, 5.25 to 1.00. The testing threshold is satisfied at any time at which the sum of outstanding revolving credit facility loans, swingline loans and certain letters of credit exceeds thirty percent (30%) of commitments under the revolving credit facility at quarter end.

Adjusted EBITDA reflects EBITDA as defined in the credit agreement governing the Senior Facilities. Solely for the purpose of calculating the springing financial covenant, pre-publication investments should be excluded from the calculation of Adjusted EBITDA.

The Senior Facilities contain certain customary affirmative covenants and events of default. The negative covenants in the Senior Facilities include, among other things, limitations on MHGE Holdings' and its subsidiaries' ability to incur additional debt or issue certain preferred shares; create liens on certain assets; make certain loans or investments (including acquisitions); pay dividends on or make distributions in respect of capital stock or make other restricted payments; consolidate, merge, sell or otherwise dispose of all or substantially all of their assets; sell assets; enter into certain transactions with affiliates; enter into sale-leaseback transactions; change their lines of business; restrict dividends from their subsidiaries or restrict liens; change their fiscal year; and modify the terms of certain debt or organizational agreements.

The fair value of the Term Loan Facility was approximately $1,560.9 million and $1,333.1 million as of December 31, 2020 and March 31, 2020, respectively. The Company estimates the fair value of our Term Loan Facility based on trades in the market. Since the Term Loan Facility do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of December 31, 2020, the remaining contractual life of the Term Loan Facility is approximately 1.41 years.

MHGE Parent Term Loan

On April 20, 2018, the Company, entered into a term loan agreement ("MHGE Parent Term Loan") with Ares Agent Services, L.P., as administrative agent, and clients of Ares Capital Management, LLC and certain funds and accounts advised by Guggenheim Partners Investment Management, LLC, as lenders, providing for a $180.0 million term loan facility (the "MHGE Parent Term Loan") with a maturity of April 20, 2022. The MHGE Parent Term Loan was issued at a discount of 2.5%.

The MHGE Parent Term Loan bears interest at 11.00% per annum for interest paid in cash and 11.75% per annum for interest paid in kind. Interest is payable semiannually on April 15 and October 15 of each year.

As of December 31, 2020, the unamortized debt discount and deferred financing costs was $1.5 million and $1.0 million, respectively, which are amortized over the term of the MHGE Parent Term Loan using the effective interest method.

The MHGE Parent Term Loan contains certain customary affirmative covenants and events of default that are similar to those contained in the indenture governing the MHGE Senior Notes. The negative covenants in the MHGE Parent Term Loan limit MHGE Parent and its subsidiaries' ability to, among other things: incur additional indebtedness or issue certain preferred shares, create liens on certain assets, pay dividends or prepay junior debt, make certain loan, acquisitions or investments, materially change its business, engage into transactions with affiliates, conduct asset sales, restrict dividends from subsidiaries or restrict liens, or merge, consolidate, sell or otherwise dispose of all or substantially all of MHGE Parent's assets.

The fair value of the MHGE Parent Term Loan was approximately $187.1 million and $153.0 million as of December 31, 2020 and March 31, 2020, respectively. The Company estimates the fair value of its MHGE Parent Term Loan based on trades in the market. Since the MHGE Parent Term Loan do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). As of December 31, 2020, the remaining contractual life of the MHGE Parent Term Loan is approximately 1.32 years.

On October 15, 2020, interest due on MHGE Parent Term Loan of $10.6 million was paid in kind.

Receivables Facility

On October 29, 2018, MHE Receivables LLC (the "Borrower"), a newly formed special purpose subsidiary of McGraw Hill LLC, entered into a Receivables Financing Agreement ("RFA") with PNC Bank, National Association, as administrative agent (the "Administrative Agent"), providing for a receivables financing facility up to a committed principal amount of $50.0 million (the "Receivables Facility") with a maturity of October 29, 2021. On August 28, 2020, the agreement was amended to extend the maturity date to August 28, 2023.

Furthermore, an additional principal amount of $100.0 million has been committed for each seasonal period, which is subject to an annual audit but committed through to August 2023. The borrowing capacity under the Receivables Facility is subject to a borrowing limit that is based on the Borrower's Eligible Receivables, as defined in the RFA. Under a Purchase and Sale Agreement entered into in connection with the Receivables Facility, all existing receivables of McGraw Hill LLC have been assigned to the Borrower and all future receivables of McGraw Hill LLC will be automatically assigned to the Borrower when they are created.

As of December 31, 2020, $45.0 million was outstanding under the Receivables Facility which is included in long-term debt, within the consolidated balance sheet. Borrowings under the Receivables Facility bear interest at LIBOR plus 3.75%, subject to adjustments, and are payable monthly. In addition, we also incur an undrawn fee of 0.50% on unutilized commitments. As of December 31, 2020, the unamortized deferred financing costs was $1.4 million which are amortized over the term of the Receivables Facility using the effective interest method.

Scheduled Principal Payments

The scheduled principal payments required under the terms of the MHGE Senior Notes, Senior Facilities, MHGE Parent Term Loan and Receivables Facility were as follows:

(Dollars in thousands)	**As of December 31, 2020**
Remainder of 2021	4,317
2022	17,269
2023	1,759,730
2024	45,000
2025	400,000
2026 and beyond	—
	2,226,316
Less: Current portion	(17,269)
	$ 2,209,047

Cash Flows

Cash flows from operating, investing and financing activities are presented in the following table:

(Dollars in thousands)	**Nine Months Ended December 31, 2020**	**Nine Months Ended December 31, 2019**
Cash flows from operating activities	$ 410,125	$ 394,095
Cash flows from investing activities	(78,232)	(119,369)
Cash flows from financing activities	(25,132)	(62,061)

Net cash flows from operating activities consist of profit after income tax, adjusted for changes in net working capital and non-cash items such as depreciation, amortization and write-offs, and provisions.

Operating Activities

- Cash flows (used for) operating activities for the nine months ended December 31, 2020 and 2019 were $410.1 million and $394.1 million, respectively, a change of $16.0 million. The increase in cash provided by operating activities was primarily driven by unfavorable net changes in operating assets and liabilities of $100.7 million offset by favorable net change in non-cash items of $31.7 million and changes in net income of $146.4 million. The net change in operating assets and liabilities was primarily due to reduced deferred revenue as a result of lower Billings and lower accounts payables and accrued expenses attributable to ongoing cost rationalization efforts. Offsetting this items were reduced accounts receivable and inventory driven by the continued transition toward digital solutions.

Investing Activities

- Cash flows (used for) investing activities for the nine months ended December 31, 2020 and 2019 were $(78.2) million and $(119.4) million, respectively, a change of $41.1 million. Cash flows used for investing activities decreased as a result of $38 million lower capital expenditures primarily related to our move to a new Headquarters in New York City, NY in fiscal year 2020, lower pre-publication investment of $6 million due to the timing of the pre-publication spend.

Financing Activities

- Cash flows provided by (used for) financing activities for the nine months ended December 31, 2020 and 2019 were $(25.1) million and $(62.1) million, respectively, a change of $36.9 million. The change was driven by the timing of term loan facility payments as well as the borrowings and repayment of amounts outstanding under the Receivable Facility in fiscal 2020.

Capital Expenditures and Pre-publication Expenditures

Part of our plan for growth and stability includes disciplined capital expenditures and pre-publication expenditures.

An important component of our cash flow generation is our pre-publication efficiency. We have been focused on optimizing our pre-publication expenditures to generate content that can be leveraged across our full range of products, maximizing long-term return on investment. Pre-publication expenditures, principally external preparation costs, are amortized from the year of publication over their estimated useful lives, one to six years, using either an accelerated or straight-line method. The majority of the programs are amortized using an accelerated methodology. We periodically evaluate the amortization methods, rates, remaining lives and recoverability of such costs. In evaluating recoverability, we consider our current assessment of the market place, industry trends, and the projected success of programs. Our pre-publication expenditures were $52.7 million and $58.4 million for the nine months ended December 31, 2020 and 2019, respectively.

Capital expenditures include purchases of property, plant and equipment and capitalized technology costs that meet certain internal and external criteria. Capital expenditures were $25.6 million and $63.6 million for the nine months ended December 31, 2020 and 2019, respectively.

Our planned capital expenditures and pre-publication expenditures will require, individually and in the aggregate, significant capital commitments and, if completed, may result in significant additional revenues. Cash needed to finance investments and projects currently in progress, as well as additional investments being pursued, is expected to be made available from operating cash flows and our credit facilities. See "Indebtedness and Liquidity" for further information.

Off-Balance Sheet Arrangements

As of December 31, 2020 we did not have any relationships with unconsolidated entities, such as entities often referred to as specific purpose or variable interest entities where we are the primary beneficiary, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such we are not exposed to any financial liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations

We typically have various contractual obligations, which are recorded as liabilities in our consolidated balance sheets, while other items, such as certain purchase commitments and other executory contracts, are not recognized, but are disclosed herein. For example, we are contractually committed to acquire paper and other printing services and make certain minimum lease payments for the use of property under operating and capital lease agreements.

The following table summarizes our significant debt related contractual obligations over the next several years as of December 31, 2020:

	Payments due by Period				
(Dollars in thousands)	**Total**	**Remainder of 2021**	**2022-2023**	**2024-2025**	**2026 and beyond**
Long-term debt, including current portion (1)	$ 2,226,316	$ 4,317	$ 1,776,999	$ 445,000	$ —
Interest on long-term debt (2)	270,804	23,250	198,616	48,938	—

(1) Amounts shown include principal on the MHGE Senior Notes, Term Loan Facility, Revolving Facility, MHGE Parent Term Loan, and Receivables Facility.
(2) Amounts shown include interest on the MHGE Senior Notes, Term Loan Facility, Revolving Facility, MHGE Parent Term Loan, and Receivables Facility.

Critical Accounting Policies and Estimates

Critical accounting policies are those that require us to make significant judgments, estimates or assumptions that affect amounts reported in the financial statements and accompanying notes. On an on-going basis, we evaluate our estimates and assumptions, including, but not limited to, revenue recognition, allowance for doubtful accounts and sales returns, inventories, pre-publication costs, accounting for the impairment of long-lived assets (including other intangible assets), goodwill and indefinite-lived intangible assets, stock-based compensation, income taxes and contingencies. We base our judgments, estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable and prudent under the circumstances. Actual results may differ materially from these estimates. For a complete description of our significant accounting policies, see Note 1, "Basis of Presentation and Accounting Policies" of the notes to consolidated financial statements included elsewhere in this Quarterly Report.

Allowance for Doubtful Accounts and Sales Returns

The allowance for doubtful accounts and sales returns reserves methodology is based on historical analysis, a review of outstanding balances and current conditions. In determining these reserves, we consider, among other factors, the financial condition and risk profile of our customers, areas of specific or concentrated risk as well as applicable industry trends or market indicators. The allowance for sales returns is a significant estimate, which is based on historical rates of return and current market conditions. The provision for sales returns is reflected as a reduction to “revenues” in our consolidated statements of operations. Sales returns are charged against the reserve as products are returned to inventory. Accounts receivable losses for bad debt are charged against the allowance for doubtful accounts when the receivable is determined to be uncollectible.

Inventories

Inventories, consisting principally of books, are stated at the lower of cost or net realizable value. The majority of our inventories relate to finished goods. A significant estimate, the reserve for inventory obsolescence, is reflected in operating and administration expenses. In determining this reserve, we consider management's current assessment of the marketplace, industry trends and projected product demand as compared to the number of units currently on hand.

Consigned Inventory

Consigned inventory consists mainly of books available through our formal rental program stated at the lower of cost or net realizable value. At the time a rental transaction is completed, the book is moved from inventories, net to property, plant and equipment, net. The cost of the book is amortized down to its estimated residual value over the rental period with the related amortization expense included within cost of sales in the consolidated statements of operations. Returns are moved back into inventories, net at the current residual value.

Pre-publication Costs

Pre-publication costs include both the cost of developing educational content and the development of assessment solution products. Costs incurred prior to the publication date of a title or release date of a product represent activities associated with product development. These may be performed internally or outsourced to subject matter specialists and include, but are not limited to, editorial review and fact verification, graphic art design and layout and the process of conversion from print to digital media or within various formats of digital media.

Deferred Technology Costs

We capitalize certain software development and website implementation costs. Capitalized costs only include incremental, direct costs of materials and services incurred to develop the software after the preliminary project stage is completed, funding has been committed and it is probable that the project will be completed and used to perform the function intended. Incremental costs are expenditures that are out-of-pocket to us and are not part of an allocation or existing expense base. Software development and website implementation costs are expensed as incurred during the preliminary project stage. Capitalized costs are amortized from the period the software is ready for its intended use over its estimated useful life, three to seven years, using the straight-line method. Periodically, we evaluate the amortization methods, remaining lives and recoverability of such costs. Capitalized software development and website implementation costs are included in other non-current assets in the consolidated balance sheets and are presented net of accumulated amortization.

Accounting for the Impairment of Long-Lived Assets (Including Other Intangible Assets)

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to current forecasts of undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets held for sale are written down to fair value, less cost to sell. Fair value is determined based on market evidence, discounted cash flows, appraised values or management's estimates, depending upon the nature of the assets.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of purchase price and related costs over the fair value of identifiable assets acquired and liabilities assumed in a business combination. Indefinite-lived intangible assets consist of the Company's acquired brands. Goodwill and indefinite-lived intangible assets are not amortized, but instead are tested for impairment annually during the third quarter each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We have four reporting units, Higher Education, K-12, International and Global Professional with goodwill and indefinite-lived intangible assets that are evaluated for impairment.

We initially perform a qualitative analysis evaluating whether there are events or circumstances that provide evidence that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount. If, based on our evaluation we do not believe that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their carrying amount, no quantitative impairment test is performed. Conversely, if the results of our qualitative assessment determine that it is more likely than not that the fair value of any of our reporting units or indefinite-lived intangible assets are less than their respective carrying amounts we perform a two-step quantitative impairment test.

During the first step, the estimated fair value of the reporting units are compared to their carrying value including goodwill and the estimated fair value of the intangible assets is compared to their carrying value. Fair values of the reporting units are estimated using the income approach, which incorporates the use of a discounted free cash flow analysis, and are corroborated using the market approach, which incorporates the use of revenue and earnings multiples based on market data. The discounted free cash flow analyses are based on the current operating budgets and estimated long-term growth projections for each reporting unit. Future cash flows are discounted based on a market comparable weighted average cost of capital rate for each reporting unit, adjusted for market and other risks where appropriate. Fair values of indefinite-lived intangible assets are estimated using avoided royalty discounted free cash flow analyses. Significant judgments inherent in these analyses include the selection of appropriate royalty and discount rates and estimating the amount and timing of expected future cash flows. The discount rates used in the discounted free cash flow analyses reflect the risks inherent in the expected future cash flows generated by the respective intangible assets. The royalty rates used in the discounted free cash flow analyses are based upon an estimate of the royalty rates that a market participant would pay to license the Company’s trade names and trademarks.

If the fair value of the reporting units or indefinite-lived intangible assets are less than their carrying value, a second step is performed which compares the implied fair value of the reporting unit’s goodwill or indefinite-lived intangible assets to the carrying value. The fair value of the goodwill or indefinite-lived intangible assets is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities of the reporting unit or carrying value of the indefinite-lived intangible asset. If the implied fair value of the goodwill or indefinite-lived intangible assets is less than the carrying value, the difference is recognized as an impairment charge. Significant judgments inherent in this analysis include estimating the amount and timing of future cash flows and the selection of appropriate discount rates, royalty rate and long-term growth rate assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit and indefinite-lived intangible asset and for some of the reporting units and indefinite-lived intangible assets could result in an impairment charge, which could be material to our financial position and results of operations.

The following table summarizes the changes in the carrying value of goodwill by reporting segment:

(Dollars in thousands)	**Higher Education**	**K-12**	**International**	**Global Professional**	**Total**
As of March 31, 2020	**$ 421,608**	**$ 28,436**	**$ 4,089**	**$ 37,078**	**$ 491,211**
Adjustment to goodwill	5,788	—	—	—	5,788
As of December 31, 2020	**$ 427,396**	**$ 28,436**	**$ 4,089**	**$ 37,078**	**$ 496,999**

Goodwill in the table above includes $5.8 million impact from foreign exchange as of December 31, 2020.

Stock-Based Compensation

We issues stock options and other stock-based compensation to eligible employees, directors and consultants and accounts for these transactions under the provisions of Accounting Standards Codification (“ASC”)

718, *Compensation-Stock Compensation*. For equity awards, total compensation cost is based on the grant date fair value. For liability awards, total compensation cost is based on the fair value of the award on the date the award is granted and is remeasured at each reporting date until settlement. For performance-based options issued, the value of the instrument is measured at the grant date as the fair value of the common stock and expensed over the vesting term when the performance targets are considered probable of being achieved. We recognize stock-based compensation expense for all awards, on a straight-line basis, over the service period required to earn the award, which is typically the vesting period.

Revenue Recognition

Revenue is recognized when control of goods or services are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, we satisfy a performance obligation.

Arrangements with multiple deliverables

Revenue relating to products that provide for more than one deliverable is recognized based upon the relative fair value to the customer of each deliverable as each deliverable is provided. Revenue relating to agreements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. If the fair value to the customer for each service is not determinable based on stand-alone selling price, we make our best estimate of the services' stand-alone selling price and recognize revenue as earned as the services are delivered. Because we determine the basis for allocating consideration to each deliverable primarily on prices experienced from completed sales, the portion of consideration allocated to each deliverable in a multiple deliverable arrangement may increase or decrease depending on the most recent selling price of a comparable product or service sold on a stand-alone basis. For example, as the demand for, and prevalence of, digital products increases, as new sales occur we may be required to increase the amount of consideration allocable to digital products included in multiple deliverable arrangements because the fair value of such products or services may increase relative to other products or services bundled in the arrangement. Conversely, in the event that demand for our print products decreases, thereby causing us to experience reduced prices on our print products, we may be required to allocate less consideration to our print products in our arrangements that include multiple deliverables.

Subscription-based products

Subscription income is recognized over the related subscription period that the subscription is available and is used by the customer. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period. Included among the underlying assumptions related to our estimates that impact the recognition of subscription income is the extent of our responsibility to provide access to our subscription-based products, and the extent of complementary support services customers demand to access our products.

Service arrangements

Revenue relating to arrangements that provide for more than one service is recognized based upon the relative fair value to the customer of each service component as each component is earned. Such arrangements may include digital products bundled with traditional print products, obligations to provide products and services in the future at no additional cost, and periodic training pertinent to products and services previously provided. If the fair value to the customer for each service is not objectively determinable, we make our best estimate of the services' stand-alone selling price and recognize revenue as earned as the services are delivered.

Rental program

Revenue relating to our rental program is deferred and subsequently recognized over the rental period. The rental period begins when the print product is transferred to the customer and are typically for a one semester. All rental periods are less than one year in duration.

Income Taxes

We determine the provision for income taxes using the asset and liability approach. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities.

Valuation allowances are established when management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management evaluates the weight of both positive and negative evidence in determining whether a deferred tax asset will be realized. Management will look to a history of losses, future reversal of existing taxable temporary differences, taxable income in carryback years, feasibility of tax planning strategies, and estimated future taxable income. The valuation allowance can also be affected by changes in tax laws and changes to statutory tax rates.

We prepare and file tax returns based on management's interpretation of tax laws and regulations. As with all businesses, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax assessments based on differences in interpretation of the tax law and regulations. We adjust our estimated uncertain tax positions reserves based on current audits and recent settlements with various taxing authorities as well as changes in tax laws, regulations, and interpretations. We recognize accrued interest and penalties related to uncertain tax positions in income tax (benefit) provision within the consolidated statement of operations.

Recently Adopted Accounting Standards

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and other - Internal-Use Software (Topic 350-40)*: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This standard requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Topic 350-40 to determine which implementation costs to capitalize as assets. This standard is effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, the Amendments in this update reduce the complexity in accounting for income taxes by removing certain exceptions to accounting for income taxes and deferred taxes and simplifying the accounting treatment of franchise taxes, a step up in the tax basis of goodwill as part of business combinations, the allocation of current and deferred tax to a legal entity not subject to tax in its own financial statements, reflecting changes in tax laws or rates in the annual effective rate in interim periods that include the enactment date and minor codification improvements. This ASU is effective for fiscal years and interim periods beginning after December 15, 2020, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*," which modifies the disclosure requirements on fair value measurements. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

In August 2017, the FASB issued ASU 2017-12, "*Derivative and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*", which aligns hedge accounting with risk management activities and changes both how companies assess hedge effectiveness and presentation and disclosure requirements. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU on the Company's financial statements was not material.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The CARES Act is an approximately $2 trillion emergency economic stimulus package in response to the Coronavirus outbreak, which among other things, contains several payroll and income tax provisions which will favorably impact the Company including deferral of payment of of employer Social Security taxes, relaxed interest expense tax deduction limitations, and accelerated tax depreciation on certain capital improvements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)* - Measurement of Credit Losses on Financial Instruments. The FASB’s new guidance changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income, including trade receivables, based on historical experience, current conditions and reasonable and supportable forecasts. This amendment is effective for interim and annual reporting periods beginning after December 15, 2019. The Company adopted this standard on April 1, 2020. As of December 31, 2020, the standard did not have a material impact on the Company's condensed consolidated financial statements and disclosures.

Recently issued FASB accounting standard codification updates, except for the above standards, did not have a material impact to the Company’s unaudited consolidated financial statements for the three or nine months ended December 31, 2020.

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Exchange Risk

Our exposure to market risk includes changes in foreign exchange rates. We have operations in various foreign countries where the functional currency is primarily the local currency. For international operations that are determined to be extensions of the parent company, the United States dollar is the functional currency. Our principal currency exposures relate to the Australian Dollar, British Pound, Canadian Dollar, Euro, Mexican Peso and Singapore Dollar. From time to time, we may enter into hedging arrangements with respect to foreign currency exposures.

Interest Rate Risk

Term Loan Facility

Borrowings under our Term Loan Facility will accrue interest at variable rates with a LIBOR floor of 1%, and a 100 basis point increase in the LIBOR (if above the LIBOR floor of 1%) on our debt balances outstanding as of December 31, 2020 would increase our annual interest expense by $13.6 million.

From time to time we may enter into hedging arrangements with respect to floating interest rate borrowings. While we may enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk. During the first quarter of 2017, we entered into interest rate swap agreements with a total notional value of $500 million to convert a portion of its variable-rate debt to a fixed rate. For more information regarding the interest rate swap agreements, refer to Note 5, "Interest Rate Hedge" of the notes to the consolidated financial statements included elsewhere in this Quarterly Report. We do not purchase or hold any derivative financial instruments for trading purposes.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In 2016, MHE filed a complaint against Illinois National Insurance Company ("INIC") in the Supreme Court of the State of New York seeking a declaration that it is entitled to full insurance benefits under several multi-media policies with INIC which has denied liability and asserted a counterclaim on November 28, 2016 in the Action seeking (i) a declaratory judgment that MHE is not entitled to the coverage sought; (ii) recoupment of indemnity payments already made by INIC on the claims; and (3) recoupment of defense costs reimbursed by INIC. On December 17, 2019, the First Department ruled that MHE is entitled to coverage for damages related to the Copyright Actions under the policies and referred the case back to the trial court for a determination of damages. On June 22, 2020, the parties reached an agreement related to the Copyright Actions lawsuit filed in 2016 in the Company's favor. The results of this agreement are reflected in the financial statements.

McGraw-Hill was one of several named defendants in multiple separate lawsuits that were brought in 2020 in various federal courts, purporting to be class actions on behalf of students and in one case, off campus bookstores. The lawsuits each alleged, among other things, that McGraw-Hill's (and other competitors) inclusive access programs violate various Federal antitrust laws by reducing competition from the secondary market and from off campus bookstores. Certain distribution channel partners were also named defendants. On August 11, 2020, the Judicial Panel on Multidistrict Litigation granted the defendants' motion to consolidate all the lawsuits into a single action and selected the District Court in the Southern District of New York for its adjudication. Plaintiffs have filed amended complaints in the consolidated action. The defendants are working together in their defense and in January 2021 filed a motion to dismiss the amended complaints. The parties are awaiting the judge’s ruling.

On January 22, 2021 and February 8, 2021, respectively, two purported class actions were filed against the Company in the Southern District of New York. The actions stem from the recent refinements the Company made to how it calculates royalties that are payable to certain authors in connection with content delivery via the Company's online platform. The allegations in the two complaints are similar. Each alleges, among other things, that the adjusted royalty approach breaches the relevant author agreements. In each case, the Company has 60 days from service of the complaint to answer or otherwise respond to the complaint. The Company believes that the allegations in the complaints are without merit.

In the normal course of business both in the United States and abroad, the Company is a defendant in various lawsuits and legal proceedings which may result in adverse judgments, damages, fines or penalties and is subject to inquiries and investigations by various governmental and regulatory agencies concerning compliance with applicable laws and regulations. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the timing, eventual outcome, or eventual judgment, damages, fines, penalties or other impact of these pending matters will be. We believe, based on our current knowledge, that the outcome of the legal actions, proceedings and investigations currently pending should not have a material adverse effect on the Company’s financial condition.

Item 1A: RISK FACTORS

There have been no material changes during the period covered by this Quarterly Report to the risk factors previously disclosed in our Annual Report for the year ended March 31, 2020. For more information regarding the risks regarding our business and industry, please see our Annual Report for the year ended March 31, 2020.

Item 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

Item 3: DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5: OTHER INFORMATION

None.